

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding to implement an increase in water rates in Highlands County, by Placid Lakes Utilities, Inc.

DOCKET NO. 011621-WU
ORDER NO. PSC-02-1657-PAA-WU
ISSUED: November 26, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

NOTICE OF PROPOSED AGENCY ACTION ORDER
GRANTING REQUEST FOR LIMITED PROCEEDING

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Placid Lakes Utilities, Inc. (Placid Lakes or utility) is a Class B water-only utility which serves 1,501 water customers in Highlands County. The utility's service area is located in a water use caution area in the Southwest Florida Water Management District (SWFWMD). Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2001 annual report, the utility reported net operating revenues of \$406,668 and a net operating income of \$35,018. Water rates were last established for this utility by Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, consummated by Order No. PSC-01-0519-CO-WU, issued March 6, 2001.

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On December 4, 2001, Placid Lakes filed for a limited proceeding rate increase in Highlands County, pursuant to Sections 367.081 and 367.0822, Florida Statutes. The utility is requesting additional revenues of \$105,170, or an increase of 22.90% over annualized revenues for the year ended August 31, 2001.

The utility seeks approval for recovery of a limited number of costs that were not included in the test year used to establish Placid Lakes' current rates in Order No. PSC-01-0327-PAA-WU. These costs consist of the following: various plant additions from January 1, 2000 to August 31, 2001; the purchase and installation of new water meters for all current customers as part of a meter replacement program; purchase and installation of a back-up electric generator; and the purchase and installation of 4,500 feet of pipe to loop the distribution line at the back of the largest subdivision.

On March 7, 2002, our staff held a customer meeting in Lake Placid, Florida. Fourteen customers attended, along with representatives of the utility. Of the fourteen customers that attended, five customers spoke on the quality of service and the proposed rate increase. In general, the customers were satisfied with the quality of service; however, many customers objected to an overall increase of rates.

We have jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes.

GRANTING LIMITED PROCEEDING

In its limited proceeding, Placid Lakes requested recovery of \$387,044 in additions to rate base above those included in its last rate case. The test year used in that prior case was the historical year ended December 31, 1999. We analyzed each of the utility's requested items to determine whether those items should be included for recovery through a limited proceeding increase. The specific plant improvements being requested by Placid Lakes are addressed below.

Generator

The utility requested \$58,262 for the purchase and installation of a back-up electric generator, with a corresponding increase of \$2,913 to depreciation expense, and \$1,457 to accumulated depreciation. In its application, the utility states that the current back-up generator was purchased in 1972 and its replacement has been ordered by the Department of Environmental Protection (DEP). We have reviewed three competitive bids received by the utility. Based on our review, we find that the purchase and requested cost of the back-up generator is prudent and reasonable. To reflect the proper retirement of the old generator from its books, accumulated depreciation shall be debited and plant in service shall be credited for \$16,326 each.

Line Loop Extension

The utility requested \$53,377 for the purchase and installation of 4,500 feet of pipe to loop the distribution line at the back of the largest subdivision. The utility also made corresponding increases of \$1,241 to depreciation expense and \$621 to accumulated depreciation. The utility states that in order to comply with the Department of Environment Protection (DEP) regulations and ensure adequate water pressure of at least 20 pounds per square inch, the utility must loop its six-inch main distribution pipe around the entire subdivision to form a complete closed system. We reviewed three bids, and inspected the line route during its field investigation. The project has been permitted by DEP.

One concern expressed by OPC was that the line loop extension would lessen the requirements for line flushing and other line cleaning maintenance. As a result, OPC believes that purchased power, chemicals and other Operation and Maintenance (O&M) expenses would be reduced. The utility responded that less flushing and less cost as a result of a single line loop does not reflect the actual facts and circumstances concerning the Placid Lakes system. The need to flush a line depends on many factors. If water sits in a long length of pipe for an extended period of time due to low usage, the water gets stagnant and no matter what the pressure in the line is, flushing is required. Further, the utility states that it is not the pressure but the usage of the water in the line

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that determines the level of flushing activity. The extension of the line loop to ensure compliance with DEP pressure regulations according to the utility will not affect the number of homes on the line and, therefore, will not save Placid Lakes time spent or expenses incurred for flushing lines for our current customers.

Based on our review, we find that the utility's request to recover the cost of the line loop extension is prudent and reasonable, and is therefore included in this limited proceeding. Further, we find that the utility's statement regarding the continued level of line flushing is reasonable. As such, no adjustments to these items are necessary.

Meter Replacements

In its application, the utility requested that it be allowed to recover costs to replace all water meters for its current customers for an estimated cost of \$212,865, less accumulated depreciation of \$5,322. The utility's requested meter replacement will include the implementation of a "touch read" system to facilitate meter reading. The utility states that a significant number of its meters are not accurately recording the amount of water sold to its customers. Of the approximately 1,400 meters the utility believes that need to be replaced, about 500 to 600 meters were installed in the 1970s. Inaccuracies have been discovered in both the older meters installed in the 1970s as well as in some of the more recently installed meters. In order to ensure meter and billing accuracy throughout the service territory, the utility's application states that it is necessary to replace all current water meters. Also, the utility states that the meter replacement program will benefit its customers as customers billing accuracy can be ensured by the installation of wires on the new meter and implementation of a "touch read" system.

As part of our review of the utility's application, we inquired as to why it was prudent for a utility to replace all of its meters, given the customer growth in the system for the past several years. We had concerns that a 100% replacement of relatively new meters was imprudent, especially when no supporting documentation was submitted showing specifically how many of those meters were actually defective. Upon our staff's request, the utility submitted information to explain why it believed its meters

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were defective. The utility responded that older meters need to be replaced because of excessive build-up of lime, sulphur, and iron. Due to excessive mineral build-up, the utility has to re-read the dials on the meters. Screens are clogged with mineral scale build-up and the numbers on the meters are covered by iron deposits. Also, customer complaints have been received about low pressure due to mineral build-up. Also, in 1996, the utility implemented the use of a water treatment chemical to reduce mineral build-up which has helped keep the meters free of the build-up. Based on conversations with our staff, the utility revised its request to replace all meters and instead requested that we approve the replacement of all meters older than 10 years.

We have reviewed the utility's concerns regarding its meter replacement request and its current meter policies. Our staff had several conversations with the utility's plant supervisor and we note that the utility's current policy regarding meter replacement and repair is generally based on a complaint of high water use by a customer or a determination from the billing records of unusual consumption. The utility's record keeping consists of work order documentation of utility time spent on a meter service work. The utility also submitted information that it performed a water audit of its meters for the water management district in 1999. Outside of the trouble-shooting and the water audit in 1999, the utility does not routinely inspect meters, for which no complaints have been registered.

Rule 25-30.265, Florida Administrative Code, states that each utility shall inspect, test, and keep record of a representative sample of its meters in service at least once during the intervals specified for each meter size. For a 5/8-inch meter, the maximum interval between tests is 10 years. This rule, however, does not specify what a representative sample is, nor does it require that all meters be tested within that period. Since the rule is silent about any requirements for specific attributes for a representative sample size, we find that the utility shall establish and document the sample attributes that it believes are appropriate.

Rule 25-30.267, Florida Administrative Code, also requires that utilities preserve the original records of all meter tests at least until the same meter is retested at a later date or until the meter is retired. The required data to be maintained includes:

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(a) information to identify the meter; (b) reason for test; (c) date of test and reading of meter; (d) computed accuracy of test before and after; and, (e) other data to permit convenient checking of test results.

Based on conversations with the utility, it appears that the utility's work order system maintains the required data records of all meter service calls. If, however, the utility were to research when a meter was last checked, we believe that it would be very difficult to find that information unless the date of the service call was known prior to the search for documentation. Thus, we find that the utility shall maintain a meter service log record. After discussing this matter with our staff, the utility plant supervisor agreed that such a meter log was appropriate to allow the future retrieval of meter service and testing information.

In addition, we find that the utility shall run periodic meter inspections of what the utility believes is a representative sample of all meters, not just those where problems or complaints are identified. We consider this to be preventative maintenance and that it will allow the utility to annually determine which meters need replacing or repairing instead of waiting to replace its meters all at once.

Pursuant to Rule 25-30.140, Florida Administrative Code, the guideline depreciable life for service meters is 20 years. We performed an informal analysis with several water utilities, both municipal and PSC-regulated. Based on our staff's conversations with those utilities, meter replacement programs for 5/8 x 3/4-inch meters generally ranged from 10 to 17 years. For meter sizes 2 inches and larger, the testing and replacement period is greater, but overall these larger meters represent a minority of total meters in service. Our staff also reviewed several recent trade articles regarding meter replacement policies and those articles support the replacement time-frame of 10 to 17 years. Placid Lakes also submitted the warranty information supporting the meters that it intends to purchase and the warranty period for accuracy of the new meters is 10 years.

We do not find that the utility has justified the replacement of 100% of its meters at one time. This is an extremely costly project and shall be done on an as-needed basis. A utility should

be continually reviewing and testing its meters as required by Rule 25-30.265, Florida Administrative Code, and should be replacing those that are inaccurate or damaged. Based on the evidence submitted in this case, we find that Placid Lakes has supported that numerous meters are in need of replacement and that the implementation of a "touch read" system to facilitate meter reading is prudent. The utility shall be allowed recovery in this limited proceeding to replace in-service meters that are 15 years and older. This results in the replacement of 843 meters out of a total number of meters of 1,410, or 60%. We also find that the utility shall be allowed recovery to install 407 remote units on non-replaced meters for the "touch-read" system.

A 15-year service life represents a composite of the investment mix of the meter account. A 20-year life is assumed for the embedded meter investment recognizing the relative older age. A 10-year life is assumed for new meters, matching the manufacturer's warranty period. We find that a 15-year service life is reasonable for Placid Lakes to use for its meter account based on the supporting information reviewed by our staff in this docket. Changing the service life of meters from 20 years to 15 years results in an increase to the meter depreciation rate from 5.00% to 6.67%. We find that it is reasonable to restate the depreciation expense for the meter account to reflect this 15-year life.

During the discovery process, we reviewed the utility's estimate of the replacement cost to retire all meters 15 years and older. The utility separated meters into three classes. Class 1 requires meter replacement only for 325 meters at \$110 per meter. This cost is made up of \$95 for parts and \$15 for labor. Class 2 requires meter replacement and meter box repairs for 422 meters at \$125 per meter. This class is increased above the class 1 costs only by \$15 labor per meter. Class 3 requires meter and meter box replacement for 96 meters at \$350 per meter. The class 3 repair includes \$60 labor and is increased by \$195 for additional parts above the \$95 cost for replacing the meter. The last component of the utility's 15 year and older replacement included the installation of the touch read encoder and pad to the existing (not retired) direct read meters. The utility reflected that 407 meters would need this remote unit at \$50 per meter. The utility's total estimate to replace meters 15 years and older was \$142,450.

There are several adjustments that are necessary to the utility's revised estimate. First, the only difference between the class 1 and 2 meters is \$15 for repair labor. We find that the cost of repairing the meter box is a maintenance expense item and shall not be considered a capital cost for rate recovery. Based on conversations with the utility, the utility's employees will be performing this labor. In Placid Lakes' recent rate case, non-capital salaries were included in operation and maintenance (O&M) expenses and thus no additional amount is required for recovery of this labor. Thus, we find that there shall be no distinction between the costs for the class 1 and 2 meter replacements and that the labor associated with the repair of the meter box for the class 2 meters be absorbed into the O&M expenses already included in rates from the last rate case. Accordingly, the utility shall receive recovery of the \$110 cost for replacing 747 class 1 and 2 meters, or \$82,170.

We have also reviewed the costs for the class 3 meter and meter box replacement. This replacement involves a higher labor cost and the utility's estimate of \$60 for labor for each meter appears reasonable. The utility's estimate for parts, however, is overstated. The utility's estimate included a \$159 cost for each meter box. We reviewed utility invoices from 2001 and found that the meter box cost was only \$75. The utility agrees that its original estimate was mistakenly overstated. Based on our analysis, the cost for replacing the meter and box is \$239. This reflects \$60 for labor, \$79 for the meter, \$75 for the box and \$25 in miscellaneous parts. The approved total for the class 3 meter replacement is \$22,944. We have also verified that the requested cost of \$50 for the installation of the touch read encoder and pad to the existing (not retired) direct read meters is reasonable and we find that the cost shall be allowed.

We note that the utility did not make an adjustment in its filing for any meter retirements. We requested that the utility provide a calculation to retire the old meters that are being replaced. The utility's calculation is based on the premise that the meter box cost was double the cost of the meter. Based on our review of invoices discussed above, the meter box cost is relatively close to the cost of the meters. As such, we took the total costs of meters recorded as of 1988 of \$49,670 and divided that amount by the 965 meters in service at that time, for an

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average cost of \$51 per installation. We assume that the breakdown between meter, box, and meter installation costs when booked were evenly spread between the original cost of installing the meter versus the meter box.

According to the Uniform System of Accounts, the proper entry for retirements is a credit to plant and a debit to accumulated depreciation for the original cost of the plant when placed in service. Thus, this retirement will not impact rate base in this proceeding. It does, however, reduce the amount of depreciation expense that was previously allowed for rate setting and shall be a reduction to depreciation expense to offset the incremental expense for the new meters. Since the retirements will not take place at the same time, we find that similar per meter retirement entries be made for each meter or meter box that has been retired in the past and those made prospectively as allowed by this proceeding. Calculation of our adjustments to meters follows:

	<u>Number of Meters</u>	<u>Cost Per Meter</u>	<u>Total Cost</u>
<u>Additions</u>			
Class 1 replace meters	325	\$110	\$35,750
Class 2 replace meter	422	\$110	46,420
Class 3 replace meter & box	<u>96</u>	\$239	<u>22,944</u>
Total	843		\$105,114
Touch-read on existing meters	<u>407</u>	\$50	<u>20,350</u>
Total plant additions per staff	1250		\$125,464
Total Additions per Utility			<u>212,865</u>
Comm. Adjustment to Rate Base			<u>(\$87,401)</u>
<u>Retirements</u>			
Retirement-Meters	843	\$25	\$21,075
Retirement-Meter box	96	\$26	<u>2,496</u>
Total Retirement			<u>\$23,571</u>
<u>Depreciation Expense</u>			
Balance of meters @ 12/31/01	\$177,759		
Retirements per Comm.	<u>(23,571)</u>	5.00%	(\$1,179)
Net balance @ 12/31/2001 @ incremental rate	\$154,188	1.67%	2,570
New Addition to meters	\$125,464	6.67%	<u>8,364</u>
Staff Incremental Depr. Expense			\$9,756
Depreciation Expense Per Utility			<u>10,643</u>
Comm. Approved Depr. Adjustment			<u>(\$887)</u>

We also adjusted depreciation for the incremental rate change from the 5% to the 6.67% on existing meters at December 31, 2001. In addition, we adjusted accumulated depreciation for meters to reflect a half-year of depreciation on the incremental depreciation expense, consistent with the method the utility used for its other plant additions.

OPC addressed concerns with the meter replacement project regarding slow meters, reduced labor costs with meter reading, and any salvage value of the retired meters. The utility's response to old meters reading slow is that this does not apply to Placid Lakes, and that the utility actually experiences the opposite. The utility states that adding polyphosphate to remove mineral build-up in meters in 1996 has adversely affected the meters. The debris is captured on the built-in screens and is causing the meters to jet. Placid Lakes states that customers are calling more frequently complaining of high usage, and during meter testing, the utility finds meters registering amounts greater than the actual usage of water.

In addition, Placid Lakes agrees that the touch-read system will add considerable labor efficiency, and it plans to use the incremental time in other areas that will enhance service to its customers. Being a small utility, it is not possible to reduce staff size for time savings of only a portion of one person's time.

Regarding reworking and re-installation of retired meters, Placid Lakes states that they are unable to rework meters due to built-in screens. Further, because of the problems with the screens, the utility is using positive displacement meters as replacements. As far as scrap value is concerned, the utility states that the current price of brass at the recycling center in Placid Lakes is nineteen cents per pound. Each meter weighs 1 pound, thus the scrap metal value for the 1,000 meters will amount to \$190.

Master Flow Meter

During the plant inspection, our staff noticed that the master flow meter for the water treatment plant had signs of possible failure, and its replacement would be needed soon. DEP requires the utility to have an operating master flow meter. Subsequent to

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the field inspection, the utility notified our staff that its master flow meter had failed. The utility submitted a cost estimate to staff of \$12,761, and requested that recovery of the flow meter be included in its filing. We have reviewed this request and believe that the cost is prudent and find that the master flow meter shall be replaced. The new flow meter shall be recorded in plant account number 307 and the annual depreciation shall be \$425. For book purposes, the utility shall debit accumulated depreciation and credit plant for \$4,624 respectively, to reflect the retirement of the old flow meter. A corresponding adjustment of \$154 shall be made to remove depreciation expense on the retired flow meter.

2000 & 2001 Miscellaneous Plant Additions

In addition to the specific plant items previously addressed, the utility requested recovery of actual plant additions incurred of \$63,688 for 2000 and \$11,185 for January through August 2001, for a total of \$74,873. Based on the information in the filing, the majority of these were to services and meters associated with adding new customers. The other additions relate to miscellaneous communication equipment. Although the utility received contributions in aid of construction (CIAC) from these new customers totaling \$61,642, it failed to net the plant additions with the associated CIAC in its filing. The utility also did not take into account any other normal changes to rate base that occur with time, such as increases to the reserves for depreciation and amortization of CIAC.

The utility recently received rate relief in its last rate case in March 2001. In that proceeding, we addressed the total aspects of this utility's revenue requirement and rates for the year ended December 31, 1999. In addition, several pro forma adjustments were made to reflect known and measurable costs outside of the test year. Limited proceedings generally address a specific or significant change that would adversely affect the normal operating income of the utility. Limited proceedings are not designed, nor should they be, to consider growth-related plant items because the number of items required to be addressed exceeds the designed scope of limited proceedings. We note that if we took the utility's change in rate base from the amount approved in 1999 and updated it to 2001 amounts, this would result in a net decrease

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to the utility's rate base in this filing. Based on the above, we find that the total 2000 and 2001 miscellaneous plant additions, depreciation expense, and accumulated depreciation adjustments shall be removed from the utility's filing.

Property Tax

In its application, the utility included additional property tax expense of \$3,397. This related to the incremental property tax on the requested plant additions, less meter and generator retirements. We have approved several adjustments to plant and retirements. As a result of those adjustments, the appropriate amount of property tax expense for this limited proceeding is \$2,189. This amounts to a reduction of \$1,208 to the utility's requested amount.

Conclusion

Based on the above, we find that the utility has demonstrated that a limited proceeding increase is reasonable and shall be approved as adjusted herein. We find that the plant improvements for the new generator, the line loop extension, the meter replacements as adjusted, and the master flow meter are non-growth related additions and appear reasonable. The majority of the 2000 and 2001 plant additions are growth related and we do not find these are appropriate to include in this proceeding. Other related adjustments requested in this application and the revenue increase and rates recommended are addressed subsequently in this Order.

COST OF CAPITAL AND INCOME TAX EXPENSE

Cost of Capital

The utility proposed that its requested \$387,044 investment in plant additions in this proceeding be funded with a 100% equity at a cost rate of 10.93%. The return on equity (ROE) of 10.93% represents the maximum of the range of the ROE established in Placid Lakes' last rate case (see Order No. PSC-01-0327-PAA-WU). In that order, we approved an overall cost of capital of 100% debt at a cost rate of 10.5%, since the utility's capital structure consisted of negative common equity and advances from associated companies.

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Placid Lakes is a subsidiary of the Lake Placid Holding Company (LPHC), and the parent provides all funding for the utility's capital. Based on the utility's 2001 annual report, the utility reflects negative equity of \$1.3 million and advances from associated companies of \$1.9 million. Even if the parent were to infuse equity into the utility's capital structure for these plant additions, the utility's negative equity balance would still be substantial.

Section 367.0822, Florida Statutes, provides that:

Unless the issue of rate of return is specifically addressed in the limited proceeding, the Commission shall not adjust rates if the effect of the adjustment would be to change the last authorized rate of return.

Since the utility's rates were approved in March of 2001, we do not find that it is necessary to restate the cost of capital. Based on the above, we approve a return consistent with the last rate case or 10.50%.

Income Taxes

In its application, the utility escalated its revenue increase for federal and state income taxes. This resulted in an increase to the utility's requested revenue calculation of \$25,523. Given the utility's large negative equity balance, the tax impact an equity infusion as proposed in this limited proceeding would be negated by net operating loss carry-forwards. Accordingly, we find that no income tax expense shall be allowed in this proceeding.

RATE CASE EXPENSE

The utility included a \$50,000 estimate in its application for current rate case expense. As part of our analysis, we requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The revised rate case expense through completion of the Proposed Agency Action (PAA) process is \$45,080. The components of the estimated rate case expense are as follows:

	<u>Revised Estimate</u>			
	Original	Actual	Estimate	
	Estimate	Incurred	to	<u>Total</u>
			Complete	
Accounting	\$23,500	\$26,077	\$5,547	\$31,624
Legal	25,000	9,456	2,500	11,956
Filing Fee	1,000	1,000	0	1,000
Notices	<u>500</u>	<u>500</u>	<u>0</u>	<u>500</u>
Current Rate Case Expense	<u>\$50,000</u>	<u>\$37,033</u>	<u>\$8,047</u>	<u>\$45,080</u>
Annual Amortization	<u>\$12,500</u>			<u>\$11,270</u>

Section 367.081(7), Florida Statutes, states that:

The Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer.

We have examined the requested actual expense, supporting documentation, and estimated expenses as listed above for the current rate case. Several adjustments are necessary to the utility's requested rate case expense.

Accounting Fees

In its application, the utility requested accounting rate case expenses of \$23,500. Upon our request, the utility submitted a breakdown of actual accounting expenses for Mr. Guastella and Mr. White, which totaled \$26,077. With the utility's estimate to complete, the revised total accounting rate case expense was \$31,624.

We have reviewed the actual charges incurred for the accounting costs. In this proceeding, Mr. Guastella charged the utility for 8.5 hours at a rate of \$245 an hour, or \$2,083, and Mr. White charged the utility for 108.50 hours at \$165 an hour, or \$17,903. We find that Mr. Guastella's hourly rate is high compared to other accounting and rate consultants that practice before the

Commission. While Placid Lakes' decision to retain Mr. Guastella for his expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for his services. We have previously reduced Mr. Guastella's hourly rate (See Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU; and Order No. PSC-01-0327-PAA-WU). We find that an hourly rate of \$165 equal to Mr. White's rate shall be allowed. Based on the 8.5 hours charged by Mr. Guastella, this results in a decrease to accounting fees of \$680.

The utility submitted additional estimates for 26.5 hours, or \$5,547 in accounting fees and expenses to complete the limited proceeding through PAA. This estimate did not include a breakdown of the specific work that would be performed for the remainder of the case, but we find that this amount should be sufficient for fees to cover the preparing of responses to discovery, review of the recommendation, travel, attendance at Agenda, and review of the PAA order, if not protested.

We have examined the requested actual accounting expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Other than the adjustment described above, we find that the actual and revised estimate to complete for accounting is reasonable. To summarize, we find that the appropriate amount of accounting fees for this limited proceeding is \$30,944. This is an increase of \$7,444 in accounting rate case costs from the utility's filing of \$23,500.

Legal Fees

In its application, the utility requested legal rate case expense of \$25,000. Upon request by our staff, the utility submitted a breakdown of actual legal expenses incurred, which totaled \$9,456. With the utility's estimate to complete, the revised total legal rate case expense was \$11,956. We have reviewed the invoices supporting the utility's actual legal costs. Based on our review, we find that the actual legal rate case expense incurred is reasonable.

The utility submitted an estimated additional cost of \$2,500 for 12 hours in legal fees to complete the limited proceeding through PAA. We find that the utility's request is reasonable for

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legal fees to cover the review of the recommendation, attendance at agenda, and review of the PAA order, if not protested.

To summarize, we find that the appropriate amount of legal rate case expense is \$11,956. This results in a decrease to the legal rate case expense included in the filing of \$13,044.

Summary

After a thorough evaluation of the revised and estimated rate case expense submitted by the utility, the appropriate total rate case expense through the PAA process for this docket is \$44,400.

	<u>Original Estimate</u>	<u>Commission Approved Adjustments</u>	<u>Commission Approved Balance</u>
Accounting	\$23,500	\$7,444	\$30,944
Legal	25,000	(13,044)	11,956
Filing Fee	1,000	0	1,000
Notices	<u>500</u>	<u>0</u>	<u>500</u>
Total Rate Case Expense	<u>\$50,000</u>	<u>(\$5,600)</u>	<u>\$44,400</u>
Annual Amortization	<u>\$12,500</u>	<u>(\$1,400)</u>	<u>\$11,100</u>

The approved rate case expense shall be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at \$11,100 per year. Based on the data provided by the utility and the adjustments discussed above, the rate case expense amortization shall be decreased by \$1,400. This is the difference between the \$11,100 amortization approved herein and the \$12,500 included in the application.

REVENUE INCREASE

Placid Lakes requested final rates were designed to generate additional annual revenues of \$105,170 for the water system. These revenues exceed annualized revenues for the 12 months ended August 31, 2001 by 22.90%. Based on the adjustments approved herein, the appropriate revenue increase shall be \$54,537, or 11.88%, as shown

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on Schedule 1, attached hereto and incorporated herein by reference.

WATER RATES

The rates shall be designed to allow the utility the opportunity to generate additional annual operating revenues of \$54,537, which represents a rate increase of 11.88%. This 11.88% increase in rates shall be applied as an across the board increase to present service rates.

The utility is required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates approved herein, pursuant to Rule 25-22.0407(10), Florida Administrative Code, to reflect the appropriate rates, pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

A comparison of the utility's present rates, Placid Lakes' requested rates, and the approved rates are shown on Schedule 2, attached hereto and incorporated herein by reference.

RATE REDUCTION FOR AMORTIZED RATE CASE EXPENSE

Section 367.0816, Florida Statutes, 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 and the gross-up for regulatory assessment fees. The reduction in revenues will result in the approved rates shown on Schedule 2.

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

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Placid Lakes Utilities, Inc., for a limited proceeding to increase its water rates is hereby granted as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates approved herein, pursuant to Rule 25-22.0407(10), Florida Administrative Code. It is further

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

ORDERED that the rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the water rates shall be reduced as set forth herein to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. It is further

ORDERED upon expiration of the four-year recovery period, pursuant to Section 367.0816, the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates

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and the reason for the reduction not later than one month prior to the actual date of the required rate reduction. It is further

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

ORDERED that if no person whose substantial interests are affected by this proposed agency action files a protest within twenty-one days of the issuance of the Order, this docket shall be closed upon the issuance of a Consummating Order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

By ORDER of the Florida Public Service Commission this 26th day of November, 2002.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

JSB

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 17, 2002.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

Placid Lakes Utilities, Inc		Schedule No. 1	
Revenue Requirement Calculation		Docket No. 011621-WU	
Rate Base	Utility	Comm. Adjust.	Comm. Approv.
Plant Additions			
Generator	\$58,262	0	\$58,262
Main Extension/line Loop	\$53,377	0	\$53,377
Meter Replacements	\$212,865	(\$87,401)	\$125,464
Flow Meter	\$0	\$12,761	\$12,761
2000 Miscellaneous Additions	\$63,688	(\$63,688)	\$0
2001 Miscellaneous Additions	<u>\$11,185</u>	<u>(\$11,185)</u>	<u>\$0</u>
Total Plant Additions	<u>\$399,377</u>	<u>(\$149,513)</u>	<u>\$249,864</u>
Accumulated Depreciation			
Generator	(\$1,457)	\$0	(\$1,457)
Main Extension/line Loop	(\$621)	\$0	(\$621)
Meter Replacements	(\$5,322)	(\$145)	(\$5,467)
Flow Meter	\$0	(\$135)	(\$135)
2000 Miscellaneous Additions	(\$4,404)	\$4,404	\$0
2001 Miscellaneous Additions	<u>(\$530)</u>	<u>\$530</u>	<u>\$0</u>
Total Accumulated Depreciation	<u>(\$12,334)</u>	<u>\$4,653</u>	<u>(\$7,681)</u>
Total Rate Base Additions	<u>\$387,043</u>	<u>(\$144,860)</u>	<u>\$242,183</u>
Operating Expenses			
O&M Expenses - Rate Case Expense	<u>\$12,500</u>	<u>(\$1,400)</u>	<u>\$11,100</u>
Depreciation Expense	<u>\$16,713</u>	<u>(\$3,349)</u>	<u>\$13,364</u>
Taxes Other - Property Taxes	<u>\$3,397</u>	<u>(\$1,208)</u>	<u>\$2,189</u>
Total Expenses	(1) <u>\$32,610</u>	<u>(\$5,957)</u>	<u>\$26,653</u>
Total Increase to Rate Base	\$387,043	(\$144,860)	\$242,183
Rate of Return	10.93%		10.50%
Increase in Rate of Return	(2) \$42,304	(16,875)	\$25,429
Income Tax Gross up	(3) \$25,523	\$25,523	\$0
NOI Deficiency [(1)+(2)+(3)]	\$100,437	(\$48,354)	\$52,083
RAF Expansion Factor	0.955	0.955	0.955
Additional Revenue Requirement	<u>\$105,170</u>	<u>(\$50,633)</u>	<u>\$54,537</u>
8/31/01 Revenue from Service Rates	<u>\$459,253</u>		<u>\$459,253</u>
Percent Increase in Revenue	<u>22.90%</u>		<u>11.88%</u>

Placid Lakes Utilities, Inc		Schedule No. 2		
Rate Schedule		Docket No. 011621-WU		
<u>Class/meter Size</u>	<u>Present Rates</u>	<u>Utility Requested</u>	<u>Comm. Approved</u>	<u>4-year Rate Reduction</u>
<u>Residential</u>				
5/8" X 3/4"	\$8.31	\$10.21	\$9.30	\$0.24
3/4"	\$12.47	\$15.33	\$13.95	\$0.35
1"	\$20.78	\$25.54	\$23.25	\$0.59
1-1/2"	\$41.55	\$50.07	\$46.48	\$1.18
2"	\$66.48	\$81.70	\$74.37	\$1.88
3"	\$132.96	\$163.41	\$148.75	\$3.76
4"	\$207.75	\$255.33	\$232.42	\$5.88
Gallonage Charge/1000g				
Gals. 10,000 and under	\$2.39	\$2.94	\$2.67	\$0.07
Gals. 10,001 to 20,000	\$3.59	\$4.41	\$4.02	\$0.10
Gals. Over 20,000	\$4.78	\$5.87	\$5.35	\$0.14
<u>General Service</u>				
5/8" X 3/4"	\$8.31	\$10.21	\$9.30	\$0.24
3/4"	12.47	\$15.33	\$13.95	\$0.35
1"	20.78	\$25.54	\$23.25	\$0.59
1-1/2"	41.55	\$50.07	\$46.48	\$1.18
2"	66.48	\$81.70	\$74.37	\$1.88
3"	132.96	\$163.41	\$148.75	\$3.76
4"	207.75	\$255.33	\$232.42	\$5.88
Gallonage Charge/1000 gal	\$2.71	\$3.33	\$3.03	\$0.08
All Gals.				
<u>Typical Residential Bills</u>				
<u>5/8" X 3/4" Meter Size</u>				
3,000 Gallons	\$15.48	\$19.03	\$17.32	
5,000 Gallons	\$20.26	\$24.91	\$22.67	
10,000 Gallons	\$32.21	\$39.61	\$36.03	