

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 130025-WU  
ORDER NO. PSC-13-0646-PAA-WU  
ISSUED: December 5, 2013

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman  
LISA POLAK EDGAR  
ART GRAHAM  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING AN INCREASE IN WATER RATES IN HIGHLANDS COUNTY

BY THE COMMISSION:

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

**Background**

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,971 customers in Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District (SWFWMD) as a critical use area. The Utility's water rates were last established in its 2008 rate proceeding.<sup>1</sup> Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2012 annual report, the Utility reported operating revenues of \$633,693 and a net operating loss of \$24,183.

On April 23, 2013, Placid Lakes filed an application with the Commission for an increase in its rates and charges for water. Accompanying the Utility's application were minimum filing requirement schedules (MFRs) required by Section 367.081, Florida Statutes (F.S.), and Rule 25-30.437, Florida Administrative Code (F.A.C.).

<sup>1</sup> See Order No. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc.

The Utility had a few deficiencies in the MFRs. The deficiencies were corrected and June 4, 2013, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The historic test year established for final rates is the historical twelve-month period ended December 31, 2012. By Order No. PSC-13-0316-PCO-WU, we suspended the final water rates proposed by the Utility to allow Commission staff sufficient time to process this case. In its filing, the Utility requested a final revenue increase of \$142,678 (22.49 percent).

On October 24, 2013, Placid Lakes filed an application for amendment of Certificate No. 401-W in Docket No. 130261-WU to add territory the Utility erroneously believed was already inside of its service area to its authorized service territory. The amendment will be addressed in Docket No. 130261-WU.

The original five-month statutory deadline for the Commission to address the Utility's requested final rates was October 29, 2013. However, by letter dated June 28, 2013, Placid Lakes waived the statutory time frame by which we are required to address the Utility's final requested rates through November 14, 2013.

This Order addresses Placid Lakes' request for final rates. We have jurisdiction pursuant to Section 367.081, F.S.

### **Decision**

Pursuant to Rule 25-30.433(1), F.A.C., this Commission determines the overall quality of service provided by a utility by evaluating three separate components. These components include the quality of the utility's product, the operational conditions of the utility's plant and facilities, and, the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county Health Department, over the preceding three-year period, are also considered. Additionally, input from DEP and Health Department officials and consideration of customer comments and complaints are considered.

#### **Quality of Utility's Product and Operating Condition of the Utility's Facilities**

The Utility is located within the SWFWMD. The Utility's Wastewater Treatment Plant (WTP) consumptive use permit was last revised by SWFWMD on September 6, 2012, and will expire on September 6, 2022.

DEP conducted a sanitary survey of the WTP on September 20, 2012, and identified no deficiencies. DEP also conducted a compliance inspection of the WTP on April 23, 2013, and identified two minor deficiencies, including a well vent that was too close to a horizontal surface and shutoff valves that were not locked open. The Utility and DEP assert that these deficiencies have been resolved at this time.

Commission staff engineers conducted a field inspection of the Utility's service area on August 22, 2013. The water treatment system was operating normally and appeared well

maintained. Based on the maintenance records and a visual inspection, the condition of the Utility's facilities were adequate.

Utility's Attempt to Address Customer Satisfaction

There were two complaints filed, regarding quality of service and improper billing, with the Commission's Customer Activity Tracking System during the past three years. A review of the customer complaints indicates that the Utility has resolved all of the complaints in a timely manner. A customer meeting was held on August 21, 2013, at Lake Placid High School in Lake Placid, Florida. Six customers attended the customer meeting, none of whom chose to speak. We received no written comments.

Conclusion

The WTP is operating normally and Placid Lakes is in compliance with DEP and SWFWMD rules and regulations. The Utility is responding adequately to water quality concerns of its customers. Therefore, we find that the overall quality of service provided by Placid Lakes is satisfactory.

**Rate Base**

Audit Adjustments to Rate Base

Staff's audit report was released on July 24, 2013, and Placid Lakes' response was received on August 1, 2013. In its response to staff's audit report, the Utility agreed to all the audit findings and adjustments. We find that the adjustments set forth in Table 1 shall be made to rate base.

Table 1

<b>Placid Lakes' Agreed to Audit Adjustments</b>			
<u>Audit Finding</u>	<u>Plant</u>	<u>Accum Depr.</u>	<u>Accum. Amort. of CIAC</u>
Finding No. 2 - Plant Sample	(\$40,180)		
Finding No. 3 - Depreciation Expense and Accumulated Depreciation		\$24,163	
Finding No. 5 - Accumulated Amortization. of CIAC			(\$17,622)
<b>Total Adjustments</b>	<b>(\$40,180)</b>	<b>\$24,163</b>	<b>(\$17,622)</b>

Adjustments to Pro Forma Plant Additions

In its filing, the Utility requested pro forma plant additions of \$195,328. The following table illustrates the pro forma plant additions requested.

Table 2

<u>Pro Forma Plant Additions</u>	<u>Amount</u>
Meter Replacement Program	\$176,299
Meter Retirement from Program	(29,682)
Truck Replacement	22,030
Old Truck Retirement	(13,967)
New 4WD Truck	32,158
Replace Electrical Panel in Water Plant	17,586
Old Electrical Panel Retirement	(9,096)
Net Plant Additions	<u>\$195,328</u>

We have reviewed the supporting documentation and the prudence of these pro forma plant additions and we find that several adjustments are necessary as discussed below.

Meters

In its application, Placid Lakes included \$176,299 to replace 582 meters that were over thirty years old. The Utility's adjusted plant-in-service balance included a reduction of \$29,682 for the corresponding retirement of the meters. At a proposed rate of six meters per month, the replacement program would take approximately eight years to complete. Specifically, the Utility is seeking to replace the existing meters with radio read devices to meet the standards of its DEP required cross-connection program. Although more costly than standard water meters, radio read devices are capable of alerting any back-flow incident.

Placid Lakes previously made requests for meter replacements in its 2001 limited proceeding<sup>2</sup> and 2008 rate case.<sup>3</sup> This Commission approved 843 meter replacements in the 2001 Limited Proceeding, but due to a lack of supporting documentation, we denied the Utility's request for pro forma funding for the proposed meter replacement program in its 2008 rate case. According to work papers filed in the instant case, the Utility replaced only 373 of the 843 meters approved in the 2001 limited proceeding. This amounts to a completion rate of 44 percent. In several data requests, the Utility cites a 70 percent replacement record. However, this calculation combines the replacement of existing meters with added touch-read devices (as outlined in its 2001 limited proceeding) and meters for new connections. Staff requested an explanation regarding the lack of completion of meter replacements approved and funded in the

<sup>2</sup> See Order No. PSC-02-1657-PAA-WU, issued November 22, 2002, in Docket No. 011621-WU, In re: Petition for limited proceeding to implement an increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pg.6.

<sup>3</sup> See Order No. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc., pg. 6.

previous proceeding. In the 2001 limited proceeding, the Commission approved funding for the replacement of 843 of the approximately 1,400 meters the Utility requested and full recovery for a new generator and line loop extensions.<sup>4</sup> During its 2008 Rate Case, Placid Lakes stated that the Commission had “granted half of the funds requested” in its 2001 limited proceeding to complete all of its requested projects and that after it “spent the funds for the generator and the line extension ... any left went to meter replacement.”<sup>5</sup> In the current case, in response to a Commission staff data request, Placid Lakes explained that it would rely solely on operating revenues generated by this proceeding to fund the meter replacements.

Pursuant to Section 367.081(2), F.S., we shall consider pro forma plant added within a reasonable time frame, not to exceed 24 months after the end of the test year unless a longer period is justified and approved by us. Placid Lakes’ demonstrated history with respect to its meter replacement program does not support an extended time frame. Therefore, the Utility shall be granted 144 meters, which equates to two years of replacements based on Placid Lakes’ estimate of replacing six meters a month. The Utility’s ratio of meters, meter boxes, and labor needed for the program were used to calculate the amount of pro forma plant required. The replacement of 144 meters totals \$43,620. Due to this adjustment, plant shall be reduced by \$132,679.

In addition, corresponding adjustments shall be made for the meter retirements. In the Utility’s MFR work papers, the old meters were retired at \$51 per meter for a total of \$29,682. In response to a staff data request for supporting documentation, the Utility cited its 2001 limited proceeding as establishing the retirement amount. In Order No. PSC-02-1657-PAA-WU, we established an average cost of \$25 per meter and \$26 per meter box. The Utility used the sum of \$51 for every meter replaced regardless of whether the meter box was also replaced or not. In most cases, only the meter was replaced and the meter box was not affected. As a result, the Utility overstated the amount of replacement cost determined in the limited proceeding. Using the correct methodology, meter retirements for the 144 meters should be \$4,848. As such, plant shall be increased by \$24,834 to reflect the correct amount of meter retirements.

In total, the adjustment associated with Placid Lakes’ meter replacement program shall result in a net \$107,845 decrease to plant. In addition, corresponding adjustments shall be made to increase accumulated depreciation by \$17,963 and decrease depreciation expense \$6,871, respectively.

### Trucks

Placid Lakes also included two pro forma plant additions totaling \$54,188 for two new trucks. One truck, at a cost of \$22,030, is to replace an older truck of the same make and model. Accordingly, the Utility included an adjustment to plant for the retirement of the older truck in the amount of \$13,967. The second truck costs \$32,158 and would be the only truck with 4-wheel drive. Placid Lakes failed to provide an invoice or signed quote for either new truck in its original filing. The Utility responded to a staff data request by stating that it was waiting for

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<sup>4</sup> See Order No. PSC-02-1657-PAA-WU

<sup>5</sup> See DN-01348-09, pg 2

Commission approval to purchase the vehicles. The Utility eventually decided to purchase the replacement truck and provided the invoice in response to a subsequent data request. It is our practice to require water and wastewater utilities to provide signed contracts or quotes, in absence of an actual invoice, for all pro forma plant improvements that are to be included in rate base for rate setting purposes.<sup>6</sup> The Utility also purchased the new, four-wheel drive truck, and supplied Commission staff with an invoice, but did so after Commission staff's recommendation was filed in this docket and additional information was needed in order for us to determine the correct pro forma plant. During the Agenda Conference on this docket, we required the utility to provide an affidavit stating the percentage of use by the Utility versus the percentage of use by its parent company. On November 25, 2013, the Utility filed the required affidavit reflecting 100 percent use by the Utility for the new truck. As such, pro forma plant shall be reduced by \$1,324 (\$32,158 - \$30,834).

#### Electrical Panel Replacement

Placid Lakes also included \$17,586 of pro forma plant to replace an electrical panel. It also included an adjustment of \$9,096 to retire the existing panel. In its filing, the Utility included an unexecuted quote from an unnamed company to support this addition. Staff made several requests for an executed copy of a quote with the business' appropriate contact information. As with the new trucks, Placid Lakes explained that it was awaiting Commission approval in this rate case to move forward with the replacement. The Utility also failed to provide an official quote from the business. Due to the lack of appropriate support documentation for the electrical panel replacement, plant shall be reduced by \$8,490. Accordingly, accumulated depreciation shall be decreased by \$9,362 and depreciation expense shall be decreased by \$266.<sup>7</sup>

#### Conclusion

Based on the above, we find that the appropriate amount of pro forma plant additions is \$46,835. This represents a decrease of \$148,493 (\$107,845+\$32,158+\$8,490) from the amount requested by the Utility. Corresponding adjustments shall be made to increase accumulated depreciation by \$5,568 (\$17,963-\$3,033-\$9,362) and decrease depreciation expense by \$10,170 (\$6,871+\$3,033+\$266). Placid Lakes did not make any provisions for property taxes related to the increase in pro forma plant. Thus, property taxes shall be increased by \$620. Additionally, Commission staff is granted administrative authority to make the appropriate adjustments to the pro forma plant additions discussed in this Order based on the information in the sworn affidavit received from the Utility.

#### Used and Useful Percentages

Placid Lakes has three wells rated at a combined capacity of 1,784,160 gallons per day (gpd), which are used to provide potable water. Raw water is treated with gaseous chlorine and

<sup>6</sup> See Order No. PSC-94-1515-FOF-SU, issued December 8, 1994, Docket No. 940655-SU, In re: Application for a staff-assisted rate case in Citrus County by RHV Utility, Inc., p. 2.

<sup>7</sup> The Utility incorrectly retired the old panel in its original filing by subtracting it from accumulated depreciation, so it had to be added in order to remove the retirement in this adjustment.

an injection of sequestrant to address mineral build-up, and is then pumped into water storage tanks and subsequently to the water distribution system. The Utility provides service to approximately 1,971 customers.

In its application, the Utility asserts that the WTP and storage facilities are 100 percent U&U, and the water distribution system is 76.92 percent Used and Useful (U&U). The Utility's methods and calculations in the current filing are discussed below.

#### Water Treatment Plant

Rule 25-30.4325, F.A.C., establishes the criteria for the U&U calculation for water treatment systems, including consideration for existence of storage capacity, fire flows, unaccounted for water, growth, and capacity limitations.

Placid Lakes has three active wells, with a total firm reliable well capacity of 729,600 gpd, based on the removal of the largest well. This value exceeds the Utility's permitted capacity from SWFWMD, which allows for an average 405,600 gpd capacity and a peak flow capacity of 474,800 gpd. Therefore, the permitted peak flow capacity was selected as the firm reliable capacity of the WTP.

Peak flow data, fire flows, unaccounted for water, and system growth were also reviewed. The second-highest flow day was selected as the peak flow day during the test year since the peak flow day was associated with a system leak. Fire flows are based on local Highlands County ordinances. Unaccounted for water is 5.5 percent, which is acceptable. Including growth, the final peak day demand is approximately 657,300 gpd.

The subsequent calculation, dividing the peak day demand by the firm reliable capacity of the WTP, yields a result of 100 percent U&U, which is consistent with the U&U finding in the last rate case.

#### Storage

Rule 25-30.4325, F.A.C., also establishes the criteria for the U&U calculation for potable water storage facilities, including consideration of the peak demand and characteristics of the storage facility. Placid Lakes has two ground storage tanks with 150,000 gallons of capacity each, totaling 300,000 gallons of storage. As both tanks have bottom drains, they are considered 100 percent usable. As the calculated peak demand exceeds the total storage capacity of the Utility's tanks, the water storage facilities are 100 percent U&U, which is consistent with the U&U finding in the last rate case.

#### Water Distribution System

Traditionally, the distribution system is evaluated based upon the number of equivalent residential connections (ERCs) that the Utility is anticipated to serve, including a growth allowance, and the total number of ERCs the Utility's facilities is capable of serving. This

traditional analysis of the distribution system would result in a 39.8 percent U&U based on 2,020 connected lots, a growth allowance of 29.5 ERCs, and 5,147 total lots.

In the last rate case, the distribution system was found to be 79.09 percent U&U, based upon a non-standard methodology. This methodology involves treating all mains larger than six inches in diameter to be transmission mains and therefore considered 100 percent U&U, and evaluating all smaller lines by comparing the number of connected lots to the number of lots capable of being served by the Utility. These percentages would then be multiplied by the original installed cost of the line. The sum of these values would then be compared to the total original installed cost of the distribution system, to generate a U&U percent value. The usage of connected lots versus ERCs is not materially different to this method, as the vast majority of customers are residential customers. Homes with private wells are excluded from these calculations. We find that the non-traditional methodology shall continue to be used for Placid Lakes due to a lack of changed conditions in the service territory and to be consistent with previous Commission decisions.

The Utility has proposed in its filing to change this methodology to also treat (1) lines less than 10 percent connected be treated as 10 percent U&U, (2) lines with greater than 50 percent connections as 100 percent U&U, (3) lines with 0 connections be treated as 100 percent U&U, and (4) the line percentages be weighted not by the original installed cost by line and for the system as a whole, but by a standardized current cost by pipe diameter and length.

The Utility previously requested, and we rejected, modifications (1) and (2). We also find it appropriate to reject modifications (1) and (2). We also deny the Utility's request for adoption of (3), as it is similar to modification (1). We note that the original purpose behind adopting a non-traditional methodology was the great difference in age and cost of the distribution lines. Therefore, we find modification (4) to be redundant and unnecessary.

We find that the non-traditional methodology shall continue to be used for this utility. Since there have been no significant changes to the system, the distribution system shall be considered 79.09 percent U&U in keeping with our precedent and policy. As a result of these U&U percentages, water rate base shall be increased by \$8,574 to reflect that 20.91 percent of the distribution system is non-used and useful. Accordingly, corresponding adjustments shall be made to increase depreciation expense by \$425 and property tax expense by \$193.

#### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operating and maintenance (O&M) expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. We approve the working capital of \$66,318. This reflects a decrease of \$1,304 to the Utility's requested working capital allowance of \$67,622.



### Test Year Rate Base

We find that the appropriate rate base is \$511,143. In its MFR's, the Utility requested a rate base of \$665,879. Our adjustments in the preceding issues resulted in a decrease of \$154,736. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

### Cost of Capital

#### Return on Equity

The Utility requested a return on equity (ROE) of 8.79 percent. Although the Utility correctly utilized the current leverage formula, adjustments shall be made to the Utility's capital structure as discussed below in Weighted Average Cost of Capital. These adjustments will result in a lower equity ratio for the test year and thus a higher recommended ROE. Based on the Commission leverage formula currently in effect, the appropriate ROE is 10.19 percent.<sup>8</sup> We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

#### Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.62 percent. However, we find that there are adjustments that shall be made to the Utility's capital structure.

#### Long-Term Debt

Placid Lakes made an adjustment to the MFR's on Schedule D-2 to move "Advances from Associated Companies," totaling \$466,095, from its long-term debt balance into common equity for rate setting purposes. On MFR Schedule D-5, the Utility noted that it does not make regular payments of principal or interest on two of the four loans from its parent company, LPHC. However, in response to a Commission staff data request, the Utility clarified that it does make regular payments of principal and interest to LPHC on the remaining two loans. Each of these loans has a corresponding cost rate (3 percent) and definitive terms listed on MFR Schedule D-5. This Commission has previously held that long-term debt from "associated companies" with no regular payments of interest or principal should be treated as common equity.<sup>9</sup> Thus, we find that the two debt instruments with regular payments, totaling \$288,336, shall remain in long-term debt. Therefore, long-term debt shall be reduced by \$192,262 and equity increased by \$192,262 to reflect "Advances from Associated Companies" for two loans for which no regular payments of interest or principal payments are being made.

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<sup>8</sup> See Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-WS, issued July 8, 2013, in Docket No. 130006-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>9</sup> See Order No. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc., p. 5.

Another adjustment was made regarding debt issued from Ford Credit. In the breakdown of debt on MFR Schedule D-5, the Utility listed a loan from Ford Credit with a maturity date of September 2013 and an interest rate of 9.06 percent associated with the truck that was replaced. Because the truck was retired, we find that the associated loan shall be removed from the balance of long-term debt. In addition, the balance shall be increased to include the newest loan issued from Ford Credit for the purchase of the two new trucks discussed previously. The first loan is for \$19,679 and has an interest rate of 6.74 percent. The second loan is for \$30,034 and has an interest rate of 4.99 percent.

Replacement of the loan balance and cost rate associated with the retired truck, with the loan balance and cost rate associated with the newly acquired truck, as well as the adjustment to retain the 3 percent related-party loan in debt rather than in common equity, results in a decrease to the overall average cost of debt.

#### Accumulated Deferred Income Taxes

Placid Lakes did not reflect any deferred income taxes on MFR Schedule D-1. In response to a staff data request, the Utility acknowledged it incorrectly left out deferred taxes.

To establish the balance of the Utility's deferred income taxes, it established a net credit of \$125,443 by taking the difference in total accumulated depreciation from its tax and book balances. An initial adjustment is necessary to reduce its tax balance of accumulated depreciation by \$55,356 to reflect the accumulated depreciation from its wastewater plant and an audit adjustment for transportation equipment. This reduction decreases the credit deferred taxes to \$104,613.

The Utility then took the difference of the 2012 balances of Contribution in Aid of Construction (CIAC) and accumulated amortization of CIAC balances for a net debit deferred taxes of \$287,599. However, since 1996, the tax code treats CIAC as nontaxable with the exception of meter installation fees and fees for service laterals. Based on discussions with the Utility, it has never elected to treat CIAC as nontaxable. The tax benefits of the current treatment of CIAC inure to the benefit of ratepayers. This benefit shall be maintained in ratemaking procedures regardless of the Utility's decision. As such, with the exception of meters and services, the Utility's 1996 annual report was used to reduce its balances of CIAC and accumulated amortization of CIAC to reflect the nontaxable treatment established in the Small Business Job Protection Act of 1996. Moreover, the incremental taxable amount of meters and services from 1996 through the 2012 test year was calculated. This resulted in a debit of \$69,188.

As previously discussed, the approved pro forma plant net of retirements is \$46,835. Specific regulatory depreciation rates and appropriate tax depreciation expense were used to determine the deferred income taxes resulting from the approved pro forma plant. Accordingly, we find a corresponding increase to credit deferred taxes of \$7,041 associated with the recommended pro forma plant.

The above adjustments to deferred income taxes result in a net credit of \$46,797 ( $\$104,613 - \$69,188 + \$11,372$ ) or a tax liability. Pursuant to Rule 25-30.433(3), F.A.C., only U&U deferred income taxes can be included for ratemaking purposes. Applying the gross U&U plant ratio of 90.33 percent results in a total net credit of \$42,319 ( $\$46,797 \times 90.33$  percent).

### Conclusion

Based upon the approved components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2012, we find the weighted average cost of capital to be 6.16 percent. Schedule No. 2 details the approved overall cost of capital.

## **Net Operating Income**

### Test Year Revenues

Placid Lakes recorded total revenues of \$634,468 for the test year. The Utility's total revenues consisted of \$628,045 for service revenues and \$6,423 for miscellaneous revenues. Based on a review of Placid Lakes' billing determinants and the rates that were in effect during the test year, we find that adjustments to test year service revenues are appropriate. By applying the rates in effect during the test year to test year billing determinants, it results in test year service revenues of \$643,290. This is an increase test year service revenues by \$15,245 ( $\$643,290 - \$628,045$ ). Moreover, Placid Lakes had a rate change during the test year. Therefore, the test year revenues have been annualized using the rates in effect at the end of the test year. This results in an increase of \$8,021 to test year service revenues. As a result, we find that test year service revenues shall be \$651,311 ( $\$628,045 + \$15,245 + \$8,021$ ).

The Utility recorded \$6,423 in miscellaneous revenues. However, miscellaneous revenues shall be decreased by \$330 to remove a backflow preventer. The Utility requested the approval of revised miscellaneous service charges. We find these charges are prudent and reasonable. Therefore, miscellaneous revenues shall be increased by \$1,520 to reflect the incremental increase in miscellaneous service charges. The appropriate test year miscellaneous revenues shall be \$7,613 ( $\$6,423 - \$330 + \$1,520$ ). Based on the above, the appropriate test year revenues are \$658,924 ( $\$651,311 + \$7,613$ ).

### Audit Adjustments to Operating Expenses

Commission staff's audit report was released on July 24, 2013, and Placid Lakes' response was received on August 1, 2013. In its response to staff's audit report, the Utility agreed to all the audit findings and adjustments. We find that the adjustments set forth in Table 3 shall be made to operating expense.

Table 3

<b>Placid Lakes' Agreed to Audit Adjustments</b>			
<u>Audit Finding</u>	<u>O&amp;M Expense</u>	<u>Depr. Expense</u>	<u>Taxes Other Than Income (TOTI)</u>
Finding No. 3 - Depreciation Expense and Accumulated Depreciation		(\$2,265)	
Finding No. 4 - Purchased Power	\$1,874		
Finding No. 8 - Taxes Other than Income			\$2,142
<b>Total Adjustments</b>	<b>\$1,874</b>	<b>(\$2,265)</b>	<b>\$2,142</b>

Adjustments to O&M Expense

Based on review, we find that adjustments shall be made to O&M expense which relate to Transportation Expense and Contractual Services-Engineering Expense.

Transportation Expense

On MFR Schedule B-5, Placid Lakes recorded Transportation expense of \$3,195 for the month of August 31, 2012. This amount was more than double the average monthly expense. In response to a staff data request, the Utility cited two major truck repairs that drove up Transportation Expense that month. Instead of providing actual invoices for the repairs, the Utility included two "Preliminary Estimates" that were for trucks not listed on its vehicle fleet. In addition, both estimates listed the balance as completely covered by insurance. In response to a subsequent staff data request, the Utility failed to provide any actual invoices or an explanation regarding insurance coverage for the repairs. The Utility did explain that the truck belongs to its parent company, LPHC, and that Placid Lakes exclusively uses the truck for Utility purposes. Due to lack of support documentation for the repairs, we find that Transportation Expense shall be reduced by \$1,989.

Contractual Services-Engineering Expense

MFR Schedule B-7 shows that expenses for Contractual Services-Engineering increased 100 percent since the Utility's last rate case in 2008. The Utility stated that the reason for the increase was due to the timing of its water permit renewal. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. Therefore, we find that Contractual Services-Engineering Expense shall be reduced by \$1,400 (4/5 of the total, \$1,750) to properly reflect the annual amount over the five-year amortization period.

Conclusion

Based on the above, we find that O&M expense shall be reduced by \$3,389 (\$1,989+\$1,400) to reflect the appropriate level of expenses for Transportation and Contractual Services-Engineering.

**Rate Case Expense**

In its filing, Placid Lakes requested \$80,080 for current rate case expense with a four-year amortization amount of \$20,020. Over the course of the case, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The Utility submitted a revised estimated rate case expense, as of October 7, 2013, through completion of the PAA process of \$67,720. The following table illustrates the Utility's requested rate case expense:

Table 4

	MFR B-10 Estimated	Actual	Additional Estimated	Revised Total
LPHC In-House Employee Fees				
Accounting-L. King	\$24,750	\$26,290	\$4,620	\$30,910
Operational/Administrative-P. Brewer	6,600	6,600	0	6,600
In house-C. Conklin	480	480	0	480
Legal-M. Friedman	40,250	13,265	8,465	21,730
PSC Filing Fee	4,000	4,000	0	4,000
Legal/Customer Notices	2,250	2,250	0	2,250
Print, copy and bind MFR's	1,750	1,750	0	1,750
Total	<u>\$80,080</u>	<u>\$54,635</u>	<u>\$13,085</u>	<u>\$67,720</u>

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

LPHC In-House Fees

The first two adjustments to rate case expense are based on two employees who split their time between the Utility and its parent company, LPHC. On MFR Schedule B-10, the Utility categorized each consultant working on the rate case according to his/her vendor or firm. Both Mr. King and Ms. Brewer were listed as consultants of LPHC. In response to a staff data request, the Utility provided a description of duties for both employees in their capacity at Placid

Lakes and clarified their pay compensation. Staff also requested support documentation for both employees regarding their time and fees associated with work on the rate case.

Mr. King's duties for Placid Lakes include preparing MFRs for rate case proceedings. Mr. King is paid an hourly wage and evenly splits his time between the Utility and LPHC for a total of 72 hours a month (36 hours per month at each company). The Utility provided its timesheets, LPHC timesheets, and LPHC invoices supporting his work on the rate case. Given that there is no allocation of Mr. King's wages from LPHC to the Utility, it is appropriate to treat LPHC fees as consultant expense. However, we find that Mr. King's fees shall be decreased \$1,320 to reflect the 24 hours related to correcting MFR deficiencies. In addition, we find that Mr. King's fees be decreased by \$9,460, because they are already captured in employee salaries and wages. Using the percentage of actual rate case hours Mr. King worked as an employee of the Utility, we find that his estimated fees shall be reduced by \$1,662. Therefore, we find that Mr. King's fees shall be decreased by a total of \$12,442 (\$1,320+\$9,460+\$1,662).

Ms. Brewer's job description at Placid Lakes does not include any specific work on rate case proceedings, and she is a salaried employee at both the Utility and LPHC. In response to a staff data request, the Utility clarified that the expenses associated with Ms. Brewer's rate case work were billed from LPHC. It stated that all of her time allocated to the Utility was completely taken performing day-to-day operations, so she had to use portions of her time as an LPH employee to work on the rate case. In a late response to staff's request for documentation, the Utility provided an invoice reflecting the \$6,600 owed for the time Ms. Brewer worked on the rate case. In light of the support documentation, Ms. Brewer's fees shall be allowed, and we decline to reduce rate base by \$6,600, despite staff's original recommendation.

#### Legal Fees and Costs

The third adjustment to rate case expense is to remove ineligible and duplicative legal expenses. In the Utility's update of actual legal fees and costs, fees associated with work on the Utility's MFR deficiencies (\$490) and Commission filing costs (\$3,500) were noted, but not removed. This Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>10</sup> In addition, the Utility's total of actual fees and costs is \$486 higher than the invoices provided. Thus, we find that legal fees and costs shall be reduced by \$486 to remove the unsupported amount. Placid Lakes also noted in its last estimate that the attorney's fees and costs associated with the Agenda Conference could possibly be reduced due to the fact that the attorney is also handling another rate case at the same Agenda Conference. As such, we find that legal fees and costs associated with the Agenda Conference shall be reduced by half or \$2,625. This is the approximate reduction suggested by the attorney in the Utility's estimate. In total, we find that legal fees and costs shall be reduced by \$7,356 to reflect these adjustments.

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<sup>10</sup> See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Filing Fees

The fourth adjustment relates to the filing fee for this case. In its filing, Placid Lakes reflected a filing fee of \$4,000, but the actual filing fee required and paid was \$3,500. Thus, we find that the filing fee shall be reduced by \$500.

Customer and Legal Notices

Placid Lakes initially included expenses of \$2,250 for customer and legal notices. In its update of rate case expense, the Utility reflected no actual charges incurred or additional estimated costs for notices. Placid Lakes is responsible for sending three notices: the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. Using Commission-approved estimates for envelopes, postage, and copying, the total cost estimated for customer notices and postage is \$3,650. Accordingly, we find that rate case expense shall be increased by \$1,400 (\$3,650-\$2,250).

Conclusion

Based upon the adjustments above, we find that Placid Lakes' revised rate case expense of \$67,720 shall be decreased by \$18,898, for a total of \$48,822. A breakdown of rate case expense is as follows:

Table 5

	MFR Estimated	Utility Revised Actual and Estimated	Commission Adjustments	Total
LPHC In-House Employee Fees				
Accounting-L. King	\$24,750	\$30,910	(\$12,442)	\$18,468
Operational/Administrative-P. Brewer	6,600	6,600	0	6,600
In house-C. Conklin	480	480	0	480
Legal-M. Friedman	40,250	21,730	(7,356)	14,374
PSC Filing Fee	4,000	4,000	(500)	3,500
Legal/Customer Notices	2,250	2,250	1,400	3,650
Print, copy and bind MFR's	1,750	1,750	0	1,750
Total	\$80,080	\$67,720	(\$25,498)	\$48,822
Annual Amortization	\$20,020			\$12,206

The total rate case expense above shall be amortized over four years, pursuant to Section 367.081(6), F.S. Based on the above, we find that annual rate case expense shall be reduced by \$7,814 (20,020-\$12,206).

**Pro Forma Expense Items**

Placid Lakes requested several pro forma expense items in its filing. After review of the support documentation for the requested pro forma expenses, we find there are necessary adjustments for Contractual Services-Other and Employee Pensions & Benefits expenses. The following table illustrates the pro forma O&M expenses requested:

Table 6

<u>Pro Forma O&amp;M Expenses</u>	<u>Amount</u>
Contractual Service-Testing	\$1,300
Contractual Services-Other	3,407
Salaries & Wages	7,078
Employee Pensions & Benefits	10,682
Chemicals	868
Total Water Additions	<u>\$23,335</u>

Contractual Services-Other Expense

Placid Lakes requested an increase of \$3,407 to normalize the expense associated with tank maintenance performed every five years. In its filing, the Utility included executed proposals and invoices to document tank maintenance expenses totaling \$51,231. In response to a subsequent staff data request, the Utility updated proposals with actual invoices to provide a final cost of \$45,731, which equates to an annual amortization amount of \$9,146 over a 5-year period. As a result, the Utility's increase of \$2,307 is necessary to normalize the maintenance expenses (\$9,146 less actual 2012 amortization of \$6,839). Thus, we find Contractual Services-Other shall be reduced by \$1,100 to reflect the appropriate normalization adjustment.

Employee Pensions & Benefits Expense

Placid Lakes also proposed an increase of \$10,682 to Employee Pensions and Benefits expense for the addition of an employee 401k plan. Specifically, the requested amount includes \$2,165 of third party administrator costs and \$8,517 based on a matching expense equal to 3 percent of the employees' salaries. The Utility provided a detailed proposal of the plan from a third party provider; however, it was unexecuted. In response to a staff data request for an executed proposal, the Utility stated that the proposed plan would not be adopted until it was approved in the current rate case. Even though the Utility believes that all of its employees will take advantage of the proposed 401k matching program to the full extent possible, Placid Lakes acknowledged that, without prior history, it is impossible to predict the matching expense.

Small water and wastewater utilities historically have been hindered from offering pension and benefits plans to their employees as they have been unable to fund such programs in advance of obtaining Commission-approved funding. We believe that it is imperative for small water and wastewater utilities to offer pension and benefit programs to attract and retain quality



employees. To provide small water and wastewater utilities the opportunity to establish pension and benefit programs will require the inclusion of pro forma adjustments.

The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) states that employee pension and benefits shall include all accruals under pension plans to which the Utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits, or insurance. This Commission has denied the funding of a pension and benefit plan in the past. The pension plan proposed by Gold Coast Utility Corp. was denied because this Commission did not believe that contributions to employees' Individual Retirement Accounts (IRAs) met the requirements of the USOA.<sup>11</sup> We find that Placid Lakes' proposed plan comports to the requirements set forth in the NARUC USOA. Under the proposed plan, the Utility will match employee contributions up to 3 percent of wages, and Placid Lakes cannot renege on its required contributions as it is a defined plan administered by a third-party.

We do recognize that projecting the degree of employee participation is difficult. However, support calculations provided by Placid Lakes indicate that the Utility projects it will be required to make the maximum 3 percent matching contribution, which equates to \$8,517. Recordkeeping and Reporting Fees assessed by the third party administrator total \$1,665. In addition, there is a one-time installation fee of \$500. Placid Lakes' total request for its 401k proposal is \$10,682.

We find that a more conservative participation rate is appropriate. As projected by the Utility, employees' monthly contribution will range from \$52 to \$160. The average salary and projected average monthly contribution are \$23,658 and \$89, respectively. We find that, based on average salaries of the employees, it may be overly optimistic to assume these employees will be able to contribute the maximum 3 percent. As such, we find that a 2 percent contribution would be more reasonable. Applying a 2 percent contribution rate will result in a matching contribution for Placid Lakes of \$5,678. In addition, as the administrative costs for Recordkeeping and Reporting Fees are not dependent on the employee and/or employer contribution level, we find that the fee quoted by the third party administrator of \$1,665 is appropriate.

The final component of the projection relates to the one-time installation fee of \$500. While we find such a fee would warrant pro forma recovery, if amortized, in this case, we find it would be more appropriate to require Placid Lakes to fund this fee by recording the expense below the line. Historically, Placid Lakes has been granted monies by this Commission for plant and expenses for which it did not ultimately expend.<sup>12</sup> We find that, based on past behavior, Placid Lakes shall be required to show its commitment to the pension program.

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<sup>11</sup> See Order No. PSC-07-0609-PAA-WS, issued July 30, 2007, in Docket No. 060246, In re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.

<sup>12</sup> See Order No. PSC-02-1657-PAA-WU, issued November 22, 2002, in Docket No. 011621-WU, In re: Petition for limited proceeding to implement an increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pg. 6 and Document No. 04818-13, filed August 16, 2013, Response to Question 9e, pg. 5.

Based on the above discussion, this we find that the appropriate amount to include for Placid Lakes' 401k expense is \$7,343. (\$5,678+\$1,665) In addition, we find that Placid Lakes shall be required to file an affidavit with this Commission, no later than March 31, 2014, attesting that it has implemented its 401k program. Should Placid Lakes be unable or unwilling to implement the 401k program by March 31, 2014, Commission staff shall file a recommendation addressing the appropriate action to be taken.

### Conclusion

Based on the above, this we find pro forma expenses of \$18,896 shall be approved. Accordingly, O&M expense shall be decreased by \$4,439. All other requested pro forma expenses not discussed were verified with support documentation. Further, Placid Lakes shall be required to file an affidavit with this Commission, no later than March 31, 2014, attesting that it has implemented its 401k program. Should Placid Lakes be unable or unwilling to implement the 401k program by March 31, 2014, staff shall file a recommendation addressing the appropriate action to be taken.

### Revenue Requirement

In its filing, Placid Lakes requested a revenue requirement to generate annual revenue of \$777,146. This requested revenue requirement represents a revenue increase of \$142,678, or approximately 22.49 percent. Consistent with our findings concerning the underlying rate base, cost of capital, and operating income issues, we grant approval of rates designed to generate a revenue requirement of \$710,000. The approved revenue requirement exceeds the adjusted test year revenue by \$51,076, or 7.75 percent. The approved pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 6.16 percent return on its investment in rate base. The computation of the revenue requirement is shown on Schedule No. 3-A and the adjustments to operating income are shown on Schedule No. 3-B.

### Rates

#### Rate Structure and Rates

Placid Lakes' water system is located in Highlands County within the SWFWMD. The Utility's water system provides service to 1,948 residential and 23 general service customers. Approximately 10 percent of the residential customer bills during the test year had zero gallons indicating the customer base is not seasonal. The average residential water demand during the test year was 3,544 gallons per month, which is a 15 percent decrease since the Utility's last rate case.

Currently, the Utility's water system rate structure consists of a base facility charge (BFC) and three tier inclining block rate structure for residential customers. The rate blocks are: (1) 0-10,000 gallons; (2) 10,001-20,000 gallons; and (3) usage in excess of 20,000 gallons, with usage block rate factors of 1.00, 1.50, and 2.00, respectively. There is no non-discretionary usage block set for this Utility. General-service customers are billed a BFC and a uniform gallonage charge.

An analysis of the Utility's billing data was performed 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) produce revenue of \$702,387, which is the approved revenue requirement of \$710,000 less miscellaneous revenues of \$7,613; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

It is Commission practice to establish a non-discretionary usage threshold for restricting repression. However, in this instance, the approved rate increase is relatively low and would not warrant a repression adjustment. Due to the low revenue requirement increase percentage coupled with the low average consumption, we find that the approved percentage increase shall be applied as an across-the-board increase to the existing service rates. To determine the appropriate percentage increase to apply to service rates, miscellaneous revenues shall be removed from the test year revenues. The calculation is shown below.

	<u>Water</u>
1. Total Test Year Revenues	\$658,924
2. Less: Miscellaneous Revenues	<u>\$ 7,613</u>
3. Test Year Revenues from Service Rates	\$651,311
4. Revenue Increase	<u>\$51,076</u>
5. % Service Rate Increase (Line 4/Line 3)	<u>7.84%</u>

Based on the above, we find that the appropriate rate structure for the water system's residential customers is a continuation of the BFC and three tier inclining block rate structure. The usage blocks shall be: a) 0-10,000 gallons; b) 10,001-20,000 gallons; and c) usage in excess of 20,000 gallons, and usage block rate factors of 1.0, 1.5, and 2.0. We find that the appropriate rate structure for the water system's general service customers is a continuation of the BFC and uniform gallonage charge. We approve an across-the-board increase due to the low revenue requirement of 7.84 percent to existing rates.

The appropriate approved monthly water rates are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

**Other Issues**

**Requested Miscellaneous Service Charges, Late Fee, and Non-sufficient Funds (NSF) Fees**

The Utility requested an increase to its miscellaneous service charges and implementation of a late payment fee. The request was accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091, F.S.

Currently, Placid Lakes' miscellaneous service charges are \$20 for the normal hours initial connection, normal reconnection, and violation reconnection. The premise visit is \$15 for normal hours. The current after hours charges are \$30 for the initial connection, normal connection, and violation reconnection and \$22.50 for after hours premise visits. The Utility requested to increase all normal hour charges to \$25 and all after hours charges to \$42.50. The requested charges are based on the hourly rate of the clerical and field employees and overhead costs including transportation, supplies, and billing expenses. We find that the Utility's proposed charges are reasonable and consistent with prior Commission decisions. Placid Lakes proposed a \$5.00 late payment fee. We find the cost justification provided by the Utility is reasonable and consistent with prior Commission decisions. Further, the Utility requested implementation of NSF fees. The appropriate NSF fees are governed by Sections 832.08(5) and 68.065(2), F.S. These charges and fees place the burden on the cost-causer rather than the general body of ratepayers.

Based on the above, we find that Placid Lakes' requested miscellaneous service charges, late fee, and NSF fees shall be approved. The miscellaneous service charges shall be \$25.00 for the normal hours initial connection, normal reconnection, violation reconnection, and premise visit and \$42.50 for after hours initial connection, normal reconnection, violation reconnection, and premise visit. A late fee of \$5.00 is approved. The appropriate NSF fees shall be in accordance with Sections 832.08(5) and 68.065(2), F.S.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved charges and fees. The approved charges and fees shall 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 shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

**Reduction of Rates Four Years After the Established Effective Date to Reflect the Removal of the Amortized Rate Case Expense**

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees (RAFs). The total reduction is \$12,879. Using Placid Lakes' current revenues,

expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The Utility shall 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 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.

Proof of Adjustment

To ensure that the Utility adjusts its books in accordance with our decision herein, Placid Lakes shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

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

ORDERED that all matters contained in the schedules appended 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 approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice. It is further

ORDERED that the Utility's requested miscellaneous service charges, late fee, and NSF fees are approved as set forth herein. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved charges and fees. The approved charges and fees shall 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. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that the Utility's water rates shall be reduced to remove rate case expense grossed up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. It is further

ORDERED that pursuant to Section 367.0816, F.S., the Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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. It is further

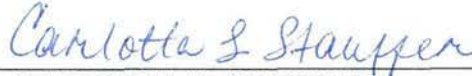
ORDERED that the Utility shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that Commission staff is granted administrative authority to make fallout adjustments consistent with this Commission's findings in this Order. It is further

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

ORDERED that in the event this Order becomes final, this docket shall remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and for all appropriate fallout adjustments to be made by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 5th day of December, 2013.



CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

JEG

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action discussed herein, except for the four-year rate reduction and proof of adjustments of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on Friday, December 27, 2013. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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



Placid Lakes Utilities, Inc Schedule of Water Rate Base Test Year Ended 12/31/12				Schedule No. 1-A Docket No. 130025-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,850,500	\$184,553	\$3,035,053	(\$157,839)	\$2,877,214
2 Land and Land Rights	1,000	0	1,000	0	1,000
3 Non-used and Useful Components	0	(68,210)	(68,210)	8,574	(59,636)
4 Accumulated Depreciation	(1,524,926)	67,503	(1,457,423)	13,455	(1,443,968)
5 CIAC	(1,705,428)	(861)	(1,706,289)	0	(1,706,289)
6 Amortization of CIAC	960,904	(26,064)	934,840	(17,622)	917,218
7 Advances for Construction	(142,254)	1,540	(140,714)	0	(140,714)
8 Working Capital Allowance	<u>0</u>	<u>67,622</u>	<u>67,622</u>	<u>(1,304)</u>	<u>66,318</u>
9 <b>Rate Base</b>	<u>\$439,796</u>	<u>\$226,083</u>	<u>\$665,879</u>	<u>(\$154,736)</u>	<u>\$511,143</u>

<b>Placid Lakes Utilities, Inc.</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 130025-WU</b>
<b>Test Year Ended 12/31/12</b>		
<b>Explanation</b>	<b>Water</b>	
<u>Plant In Service</u>		
1 Audit adjustment (Issue )	(\$40,180)	
2 Appropriate pro forma amount (Issue )	(117,659)	
Total	<u>(\$157,839)</u>	
<u>Non-Used and Useful</u>		
To reflect net non-used and useful adjustment (Issue )	<u>\$8,574</u>	
<u>Accumulated Depreciation</u>		
1 Audit adjustment (Issue )	\$24,163	
2 Appropriate pro forma amount (Issue )	(5,568)	
Total	<u>\$18,595</u>	
<u>Accumulated Amortization of CIAC</u>		
Audit adjustment (Issue )	<u>(\$17,622)</u>	
<u>Working Capital</u>		
To reflect the appropriate working capital allowance. (Issue )	<u>(\$1,304)</u>	

Placid Lakes Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/12							Schedule No. 2 Docket No. 130025-WU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$468,358	(\$464,587)	\$3,771	\$0	\$3,771	0.57%	9.06%	0.05%	
2 Short-term Debt	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	151,562	464,980	616,542	29,064	645,606	96.96%	8.79%	8.52%	
5 Customer Deposits	16,750	(250)	16,500	0	16,500	2.48%	2.00%	0.05%	
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7 <b>Total Capital</b>	<u>\$636,670</u>	<u>\$143</u>	<u>\$636,813</u>	<u>\$29,064</u>	<u>\$665,877</u>	<u>100.00%</u>		<u>8.62%</u>	
<b>Per Commission</b>									
8 Long-term Debt	\$468,358	(\$129,510)	\$338,848	(\$113,967)	\$224,881	44.00%	3.40%	1.50%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	151,562	191,147	342,709	(115,266)	227,443	44.50%	10.33%	4.60%	
12 Customer Deposits	16,750	(250)	16,500	0	16,500	3.23%	2.00%	0.06%	
13 Deferred Income Taxes	0	42,319	42,319	0	42,319	8.28%	0.00%	0.00%	
14 <b>Total Capital</b>	<u>\$636,670</u>	<u>\$103,706</u>	<u>\$740,376</u>	<u>(\$229,233)</u>	<u>\$511,144</u>	<u>100.00%</u>		<u>6.16%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>9.33%</u>	<u>11.33%</u>		
OVERALL RATE OF RETURN						<u>5.71%</u>	<u>6.60%</u>		

Placid Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/12							Schedule No. 3-A Docket No. 130025-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 <b>Operating Revenues:</b>	<u>\$634,468</u>	<u>\$142,678</u>	<u>\$777,146</u>	<u>(\$118,222)</u>	<u>\$658,924</u>	<u>\$51,076</u> 7.75%	<u>\$710,000</u>	
<b>Operating Expenses</b>								
2 Operation & Maintenance	<u>\$521,408</u>	<u>\$19,564</u>	<u>\$540,972</u>	<u>(\$13,769)</u>	<u>\$527,203</u>		<u>\$527,203</u>	
3 Depreciation	<u>48,676</u>	<u>15,542</u>	<u>64,218</u>	<u>(6,870)</u>	<u>57,348</u>		<u>57,348</u>	
4 Taxes Other Than Income	<u>77,052</u>	<u>2,834</u>	<u>79,886</u>	<u>(2,343)</u>	<u>77,543</u>	<u>2,298</u>	<u>79,841</u>	
5 Income Taxes	<u>0</u>	<u>34,646</u>	<u>34,646</u>	<u>(38,836)</u>	<u>(4,190)</u>	<u>18,355</u>	<u>14,165</u>	
6 <b>Total Operating Expense</b>	<u>647,136</u>	<u>72,586</u>	<u>719,722</u>	<u>(61,818)</u>	<u>657,904</u>	<u>20,653</u>	<u>678,557</u>	
7 <b>Operating Income</b>	<u>(\$12,668)</u>	<u>\$70,092</u>	<u>\$57,424</u>	<u>(\$56,404)</u>	<u>\$1,020</u>	<u>\$30,422</u>	<u>\$31,442</u>	
8 <b>Rate Base</b>	<u>\$439,796</u>		<u>\$665,879</u>		<u>\$510,726</u>		<u>\$510,726</u>	
9 <b>Rate of Return</b>	<u>(2.88%)</u>		<u>8.62%</u>		<u>0.20%</u>		<u>6.16%</u>	

Placid Lakes Utilities, Inc. Adjustments to Operating Income Test Year Ended 12/31/12		Schedule No. 3-B Docket No. 130025-WU
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase	(\$142,678)
2	Commission adjustment to annualized revenues (Issue ECO)	24,456
	Total	<u>(\$118,222)</u>
<u>Operation and Maintenance Expense</u>		
1	Audit adjustment (Issue )	\$1,874
2	Test year adjustments. (Issue )	(3,389)
3	Rate Case Expense. (Issue )	(7,814)
4	Appropriate pro forma amount (Issue )	(4,439)
	Total	<u>(\$13,769)</u>
<u>Depreciation Expense - Net</u>		
1	Audit adjustment (Issue )	(\$2,265)
2	Appropriate pro forma amount (Issue )	(5,030)
3	To add net depreciation on non-U&U adjustment above. (Issue )	425
	Total	<u>(\$6,870)</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above	(\$5,320)
2	Audit adjustment (Issue )	2,142
3	To reflect Non-U&U Property tax (Issue )	215
4	To reflect appropriate pro forma property taxes. (Issue )	620
	Total	<u>(\$2,343)</u>

**Placid Lakes Utilities, Inc.**  
**Test Year Ended 12/31/2012**  
**Monthly Water Rates**

	<b>UTILITY CURRENT RATES</b>	<b>UTILITY'S REQUESTED RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size	\$10.95	\$12.09	\$11.81	\$0.22
5/8"x3/4"	\$27.37	\$30.23	\$29.52	\$0.54
1"	\$54.74	\$60.45	\$59.03	\$1.08
1-1/2"	\$87.58	\$96.72	\$94.45	\$1.73
2"	\$175.16	\$193.44	\$188.90	\$3.46
3"	\$273.70	\$302.25	\$295.16	\$5.41
4"	\$547.39	\$604.51	\$590.32	\$10.82
6"				
Charge per 1,000 Gallons - Residential				
0 - 10,000 gallons	\$4.10	\$5.56	\$4.42	\$0.08
10,001 - 20,000 gallons	\$6.16	\$8.34	\$6.64	\$0.12
Over 20,000 gallons	\$8.20	\$11.12	\$8.84	\$0.16
Charge per 1,000 Gallons - General Service	\$4.39	\$5.95	\$4.73	\$0.09
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$23.25	\$28.77	\$25.07	
6,000 Gallons	\$35.55	\$45.45	\$38.33	
10,000 Gallons	\$51.95	\$67.69	\$56.01	