

VOTE SHEET

DATE: APRIL 14, 1997

RE: DOCKET NO. 960444-WU - Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.

Issue 1: Is the quality of service satisfactory? Recommendation: The quality of service is marginal at best, and should be monitored to ensure improvement.

APPROVED

Rate Base

Issue 2: Should an adjustment be made to utility plant in service? Recommendation: Yes. LUSI's water utility plant in service should be reduced by \$103,440 due to misclassification and lack of documentation support.

APPROVED

COMMISSIONERS ASSIGNED: ~~Full Commission~~ JN, GR, DS, KS

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures of commissioners in the majority column.

Blank lines for signatures in the dissenting column.

DOCUMENT NUMBER-DATE

03902 APR 16 1997

FPSC-RECORDS/REPORTING

REMARKS/DISSENTING COMMENTS: PSC/RAR33 (5/90)

COMMISSIONER CLARK PARTICIPATED IN THE VOTE VIA 2-WAY CONFERENCE CALL. IN HER ORAL VOTE, SHE: AGREED WITH THE MAJORITY / DISSENTED. COMMISSIONER CLARK WILL SIGN THE ORIGINAL VOTE SHEET UPON HER RETURN TO TALLAHASSEE.

Issue 3: Should an adjustment be made to the utility land?

Recommendation: Yes. Land should be increased by \$357 to reflect the correct amount of land and land rights of \$4,087.

APPROVED

Issue 4: Should a margin reserve be included in the used and useful determination?

Recommendation: Yes. A total margin reserve of 70,264 GPD should be included in the plant used and useful. Margin reserve for the distribution system is 101 ERCs.

APPROVED

Issue 5: Is there excessive unaccounted for water and, if so, what adjustments should be made to purchased power and chemical costs?

Recommendation: Yes. There is a total excessive unaccounted for water in the amount of 23,378 GPD. The resulting adjustments should be \$2,587 for purchased power cost and \$461 for chemical cost.

APPROVED

Issue 6: What used and useful percentages are appropriate for this proceeding?

Recommendation: The water plant used and useful (NARUC Acct. 320.3) and the distribution system used and useful (NARUC Acct. 331.4) are shown in the charts for each system in the analysis portion of staff's 4/2/97 memorandum. The distribution storage (hydropneumatic tanks) percentage is 100% (NARUC Acct. 330.4).

APPROVED

Issue 7: Should an adjustment be made to impute CIAC for Vistas' water supply and storage system?

Recommendation: Yes. CIAC should be imputed for \$16,500 for Vistas' water and storage system due to the lack of proof of the actual payment by LUSI.

APPROVED

Issue 8: What additional adjustments are necessary to CIAC?

Recommendation: An additional adjustment should be made to correct recording errors and misclassifications on the utility's books. Based on a simple average, CIAC should be increased by \$168,449.

APPROVED

Issue 9: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

Recommendation: Yes. Consistent with Commission practice, CIAC should be imputed as a matching provision to the margin reserve calculation. However, it is appropriate to make the adjustment for 50% of the imputed amount as an averaging method to recognize that the imputed amount will be collected over the life of the margin reserve period, not all at the beginning of the period. Accordingly, CIAC should be increased by \$12,480 and accumulated amortization of CIAC should be increased by \$168. Additionally, test year amortization expense should be increased by \$334.

APPROVED

Issue 10: Are adjustments necessary to accumulated depreciation, depreciation expense, accumulated amortization of CIAC and CIAC amortization expense?

Recommendation: Yes. Due to the unreliability of the utility's balances of accumulated depreciation and accumulated amortization of CIAC, each reserve account has been completely restated. Accumulated depreciation should be increased by \$56,123 to reflect a simple average balance of \$187,877. Accumulated amortization of CIAC should be increased by \$15,309 to reflect a simple average balance of \$124,739. Based on the recommended balances of plant and CIAC and the guideline depreciation rates, test year depreciation expense should be reduced by \$12,128, and CIAC amortization expense should be decreased by \$6,258.

APPROVED

Issue 11: Should the utility's negative acquisition adjustment be included in rate base?

Recommendation: An adjustment of \$70,169 should be made to remove the incorrectly recorded negative acquisition adjustment. Accordingly, adjustments of \$7,095 and \$2,175, respectively, should also be made to remove the accumulated amortization of acquisition adjustment and test year amortization expense.

APPROVED

Issue 12: Should an adjustment be made to advances for construction for errors and misclassifications?

Recommendation: Yes. Based on a simple average, the proper amount of advances for construction is \$376,255.

APPROVED

Issue 13: Is an adjustment necessary to accumulated deferred income taxes?
Recommendation: Yes. Accumulated deferred income taxes should be increased by \$127,927 to reflect the utility's income tax liability on advances for construction.

APPROVED

Issue 14: What is the appropriate working capital allowance?
Recommendation: The appropriate working capital allowance is \$26,575.

APPROVED

Issue 15: What is the appropriate test year rate base?
Recommendation: The appropriate test year water rate base for the utility is \$61,913.

APPROVED

Cost of Capital

Issue 16: What is the appropriate return on common equity?
Recommendation: Applying the current leverage formula, the rate of return on common equity is 11.61%, with a range of 10.61% to 12.61%.

APPROVED

Issue 17: What is the appropriate overall cost of capital?

Recommendation: The appropriate overall cost of capital is 9.26%, with a range of 8.92% to 9.59%.

APPROVED

Net Operating Income

Issue 18: Should an adjustment be made to test year operating revenues?

Recommendation: Yes. The test year operating revenues should be decreased by \$55,502.

APPROVED

Issue 19: Are adjustments necessary to test year operation and maintenance (O & M) expenses?

Recommendation: Yes. Test year operation and maintenance expenses should be reduced by \$1,767 to disallow a non-utility insurance premium, a refundable security deposit and non-test-year operating expenses.

APPROVED

Issue 20: What adjustments for purchased power and chemicals are appropriate if regression analysis adjustments are determined to apply in this case?

Recommendation: Purchased power should be reduced by \$2,762, and purchased chemicals should be reduced by \$492.

APPROVED

Issue 21: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$57,351, or \$14,338 in annual amortization. This results in a decrease to the utility's filing of \$13,429 in annual amortization.

APPROVED

Issue 22: Are adjustments necessary to reduce test year payroll and property taxes?

Recommendation: Yes. Adjustments should be made to reduce test year payroll and property taxes by \$1,532 and \$1,481, respectively, for double counting and non-utility expenses.

APPROVED

Issue 23: What is the proper amount of personal property and real estate taxes for non-used and useful plant?

Recommendation: The proper amount of personal property and real estate taxes for non-used and useful plant is \$3,038, based on the recommended non-used and useful calculation.

APPROVED

Issue 24: What is the appropriate level of test year operating income before any revenue increase?

Recommendation: The appropriate level of test year operating income is negative \$8,103 for water.

APPROVED

Revenue Requirement

Issue 25: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>TOTAL\$</u>	<u>INCREASE</u>	<u>%INCREASE</u>
Water	\$281,670	\$23,226	8.99%

APPROVED

Rates and Rate Structure

Issue 26: What is the appropriate rate structure?

Recommendation: The Commission should find that LUSI's facilities and land are functionally related. Based on this finding, a uniform rate structure is appropriate for LUSI.

APPROVED

Issue 27: Is a repression adjustment to consumption appropriate for this utility and, if so, what is the appropriate adjustment?

Recommendation: Yes. A repression adjustment of 17,030,454 gallons is appropriate. Furthermore, in order to monitor the effect of the approved revenue increase on customers' consumption, the utility should be ordered to compile bi-monthly reports containing the number of customer bills, the gallons billed and the revenues billed. This information should be provided by service area, customer class and meter size. These bi-monthly reports should be filed every four months, for a period of two years, commencing on the first billing cycle the revised rates go into effect.

APPROVED

Issue 28: What are the appropriate water rates for LUSI?

Recommendation: The recommended rates should be designed to produce annual revenues of \$275,955 for water excluding miscellaneous service revenue. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of notice.

APPROVED

Issue 29: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense, as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced, as shown on Schedule No. 5, to remove \$15,014 for rate case expense grossed up for regulatory assessment fees which are being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction.

APPROVED

Issue 30: In determining whether an interim refund is appropriate, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collections period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 14.66% of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

APPROVED

Issue 31: What are the appropriate service availability charges for LUSI?

Recommendation: Uniform service availability charges are appropriate for LUSI. Staff's recommended service availability charges are shown on Schedule Nos. 6-A and 6-B. Therefore, the tariffs filed on June 3, 1996 for service availability charges should be denied as filed. The utility's current service availability tariff sheets (listed in the staff analysis) should be canceled within thirty days of the effective date of the order. The utility should be required to file revised tariff sheets which are consistent with the Commission's vote within thirty days of the effective date of the order. Staff should be given administrative authority to approve the revised tariff sheets upon expiration of the protest period and staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), F.A.C.

APPROVED

Issue 32: What is the appropriate AFPI charge?

Recommendation: The utility should be allowed to collect AFPI charges based on the staff-proposed non-used and useful net plant amounts. Schedule 7 of staff's memorandum provides the charges and detailed calculation behind each recommended charge. The effective date of accruing the charges for AFPI should be January 1, 1996, consistent with Rule 25-30.434(4), F.A.C. The utility should file revised tariff sheets which are consistent with the Commission's vote within thirty days of the effective date of the order. Upon timely receipt and staff's verification that the tariffs are consistent with the Commission's decision, staff should be given administrative authority to approve the revised tariff sheets. If no protest is filed and the revised tariffs are approved, the charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1). Further, all of LUSI's prior tariff charges for AFPI should be canceled on the same date as the approved AFPI tariffs become effective. If the utility fails to file or incorrectly files the tariffs, then staff will file a subsequent recommendation to resolve any further issues.

APPROVED

Other Issues

Issue 33: Are the utility's books and records in compliance with Rule 25-30.115 and Rule 25-30.450, F.A.C. (Audit Exception No. 1)?

Recommendation: No. LUSI's books and records are not in compliance with the above mentioned rules. Lake Placid Utilities, Inc., Utilities, Inc. of Florida, and Mid-County Services, Inc. are currently being audited by staff for compliance with past Commission orders. LUSI, as well as the remaining Utilities, Inc.'s FPSC-regulated companies mentioned in the staff analysis of this issue should be given six months from the date of this order to bring their books and records into compliance with the NARUC Uniform System of Accounts. At that time, staff will perform compliance audits. If substantial compliance is not evident at that time, a show cause proceeding should be initiated. Further, if the parent company purchases any additional companies under the Commission's jurisdiction, the parent company should timely notify the Commission if the purchased utility's books are not in compliance with NARUC. The company should then request a reasonable amount of time to bring the books and records into compliance.

APPROVED

Approved with the modification that the utility will be given until 1-31-98 to bring their books and records into compliance with the NARUC Uniform System of Accounts.

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Issue 34: Should this docket be closed?

Recommendation: The docket should be closed if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period, upon staff's verification that the utility has completed the required refunds, and upon the utility's filing of and staff's approval of revised tariff sheets.

APPROVED