State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: JANUARY 4, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (BINFORD, MUNROE, LINGO, MAUREY, MERCHANT, CROUCH)
DIVISION OF LEGAL SERVICES (BRUBAKER)

RE: DOCKET NO. 000295-WU - APPLICATION FOR INCREASE IN WATER RATES IN HIGHLANDS COUNTY BY PLACID LAKES UTILITIES, INC.
COUNTY: HIGHLANDS

AGENDA: 01/16/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION -EXCEPT FOR ISSUE 21 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: JANUARY 16, 2001 (PAA RATE CASE)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\LEG\WP\000295.RCM

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ACCOUNTING AND RATE SCHEDULES

CASE BACKGROUND

Placid Lakes Utilities, Inc. (Placid Lakes or utility) is a Class B water-only utility which, according to its 1999 annual report, serves approximately 1,440 water customers in Highlands County, Florida. 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 annual report for 1999, the utility reported operating revenues of $261,784 and a net operating loss of $80,698.

Placid Lakes' last rate proceeding was a staff-assisted rate case in Docket No. 950697-WU. By Order No. PSC-96-0679-FOF-WU, issued on May 23, 1996, the Commission established rate base and increased the utility's water rates. In that same docket, allowance for funds prudently invested (AFPI) charges were approved in Order No. PSC-97-0917-FOF-WU, issued August 4, 1997. On April 30, 1998, Placid Lakes received a 1998 price index rate adjustment of 2.10%. Further, on June 14, 2000, the utility decreased its water rates for the four year rate case expense adjustment as ordered in the utility's prior rate case.

On June 9, 2000, Placid Lakes filed an application for an increase in water rates. By letters dated June 28, 2000 and August 4, 2000, staff notified the utility of several deficiencies in the filing. Those deficiencies were corrected and the official filing date was established as August 11, 2000, pursuant to Section 367.083, Florida Statutes.

The utility's requested test year for final and interim purposes is the historical year ended December 31, 1999. Also, the utility requested that this case be processed using the Proposed Agency Action (PAA) procedure pursuant to Section 367.081(8), Florida Statutes.

By Order No. PSC-00-1891-PCO-WU, issued October 16, 2000, Placid Lakes was granted interim rates designed to generate annual revenues of $349,827. This represents a revenue increase of $101,135 (40.67%) for the water system.

The utility requested final rates designed to generate annual water revenues of $485,481. This represents a revenue increase of $232,233 (91.70%).

The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes. This recommendation addresses Placid Lakes' requested final rates.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Placid Lakes to its customers satisfactory?

RECOMMENDATION: Yes, staff recommends that the quality of service provided by Placid Lakes is satisfactory. (MUNROE)

STAFF ANALYSIS: Rule 25-30.433(1) Florida Administrative Code, states: "The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction." In addition, sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health department or lack thereof over the preceding 3-year period are also considered. DEP and county health department officials' comments concerning quality of service as well as the testimony of utility's customers are to be considered. Staff's analysis below addresses each of these three components.

The utility's service area is located in Lake Placid, Florida, which is in west central Highlands County. The utility provides water service to 1,406 residential customers and 31 general service customers. The utility's raw water is obtained from 4 wells in the area surrounding the water plant. The water treatment includes aeration, chlorination and polyphosphate with 3 hydropneumatic tanks (15,000 gallons each) and 2 ground storage tanks (150,000 gallons each).

Quality of Utility's Product

In Highlands County, the drinking water program is regulated by the Southwest Florida District of DEP. The quality of drinking water is determined by the results of required testing and analysis of their products. According to DEP, the utility currently is up to date with all of its testing requirements, and the results of those tests are satisfactory. A review of reports and required test results by the staff engineer indicates the utility is properly treating its drinking water and the quality of the product is satisfactory. It should also be mentioned that field

representatives of both DEP and the Southwest Water Management District stated that Placid Lakes represents the best water utility under their jurisdiction.

Operational Conditions at the Plant

In addition to DEP periodic inspections over the last three years, the staff engineer conducted extensive inspections of all the utility's facilities on September 10, 2000 through September 14, 2000. Conditions and operation were found to be excellent.

Utility's Attempt to Address Customer Satisfaction

The utility received approximately 107 customer complaints and requests for service during the test year. The majority (57) concerned water leaks and meter checks. Other complaints included: 8 complaints concerning backflow preventors; 4 concerning water taste/color; and 1 concerning pressure. All complaints appear to have been resolved promptly by the utility. The remaining 37 were routine service calls. In addition, a three year scan of the Commission Complaint Tracking System (CATS) was conducted, and no complaints were found.

A customer meeting was held October 24, 2000 at 6:00 P.M. in the Lake Placid High School auditorium. The meeting was attended by two customers. Neither had quality of service complaints.

Conclusion

In view of an analysis of the three quality of service components, staff recommends that the Commission find the quality of service provided by Placid Lakes in treating and distributing water is satisfactory.

RATE BASE

ISSUE 2: Should a year-end or simple average test year be recognized for ratemaking purposes?

RECOMMENDATION: A simple average should be used for both rate base and cost of capital. Also, adjustments should be made to remove the utility's year-end adjustments to annualize revenues, depreciation expense, and taxes other than income. (BINFORD, MERCHANT)

STAFF ANALYSIS: In its minimum filing requirements (MFRs), the utility requested use of a historical year-end test year. In its test year approval request, Placid Lakes stated that the year-end treatment was applied to enable it to recover its current cost of operations. Other than this statement, the utility has not provided any further reason or justification for its request to use a year-end instead of an average test year. The utility also stated in its test year request that there were no extraordinary maintenance or rehabilitation projects undertaken in 1999. Further, the utility stated that customer growth in 1999 occurred at a level consistent with prior years.

The use of a year-end versus an average test year has been addressed by the Florida Supreme Court on a number of occasions. In City of Miami v. FPSC, 208 So.2d 249 (Fla 1968), the Court found that, in the absence of the most extraordinary of conditions, the Commission should apply average investment during the test year in determining rate base. In Citizens of Florida v. Hawkins, 356 So. 2d 258 (Fla. 1978), the Court found that average rate base can produce a distorted picture when a company is experiencing extraordinary growth due to rapid increases in demand for its service, such as population growth or when other factors are forcing investment costs upward without a corresponding increase in revenues. In a more recent case, the Commission found a utility had to prove that extraordinary conditions exist in order to use a year-end rate base. (See Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, in Docket No. 951056-WS).

Based on staff's review in this case, we do not believe that extraordinary conditions exist. Comparing the utility's average to its requested year-end rate base, staff believes that the difference is minimal. Further, the utility has not shown any extraordinary growth in demand or customers, nor any material changes in its plant in service at year-end. Accordingly, staff recommends that the Commission use a simple average test year for ratemaking purposes. This averaging methodology is consistent with Rule 25-30.433(4), Florida Administrative Code, for Class B water utilities. As such, staff has reflected the utility's rate base

and capital structure on a simple average basis. We have also made corresponding adjustments to revenues, depreciation expense and taxes other than income.

ISSUE 3: What adjustments should be made to reflect pro forma plant?

RECOMMENDATION: Utility plant in service should be increased by $11,865 to reflect pro forma plant. Corresponding adjustments to increase accumulated depreciation by $297, to increase depreciation expense by $593, and to increase taxes other than income for property/real estate tax by $214 should be made. (BINFORD)

STAFF ANALYSIS: The utility purchased pumping equipment for its Well #2 after the test year. The equipment had been damaged by lightning. The utility provided documentation for the expenditures. After staff's analysis, we recommend increasing utility plant in service by $11,865 to reflect pro forma plant. Corresponding adjustments to increase accumulated depreciation by $297, to increase depreciation expense by $593, and to increase taxes other than income for property/real estate tax by $214 should also be made.

ISSUE 4: Should capitalized interest on construction work in progress (CWIP) be allowed?

RECOMMENDATION: No. The utility capitalized interest on construction related to a plant expansion without a Commission approved allowance for funds used during construction (AFUDC) rate. Plant should be decreased by $45,333, with corresponding adjustments made to decrease accumulated depreciation by $3,857 and depreciation expense by $1,543. (BINFORD, MERCHANT)

STAFF ANALYSIS: In Audit Exception 2, the staff auditor discovered that, during 1997, the utility acquired a loan from its parent company, Lake Placid Holding Company, Inc., for construction of its plant expansion. The utility capitalized the interest on the construction related to the plant expansion loan. Rule 25-30.116(5), Florida Administrative Code, states that no utility may charge or change its AFUDC rate without prior Commission approval.

In the utility's response to the audit report, it stated that the utility was unaware of a requirement for written authorization from the Commission prior to capitalizing interest during construction.

In Orders Nos. PSC-95-1444-FOF-WS, issued November 28, 1995, in Docket No. 950193-WS, and PSC-95-1325-FOF-WS, issued October 31, 1995, in Docket No. 941151-WS, the Commission disallowed capitalized interest where the utility did not have an approved AFUDC rate. Consistent with Rule 25-30.116(5), Florida Administrative Code and the Commission past practice, staff recommends that the unapproved AFUDC be disallowed. Accordingly, staff recommends decreasing plant by $45,333. Corresponding adjustments to decrease accumulated depreciation by $3,857 and to decrease depreciation expense by $1,543 should also be made.

Whether the utility should be required to show cause for its apparent violation of Rule 25-30.116(5), Florida Administrative Code, is the subject of Issue 21 of this recommendation.

ISSUE 5: Should the used and useful be adjusted to allow for excessive unaccounted for water?

RECOMMENDATION: No, the unaccounted for water falls well within the acceptable limit. (MUNROE)

STAFF ANALYSIS: The acceptable limit is 10%, and any unaccounted for gallons above 10% is considered excessive. Placid Lakes' unaccounted for water is 2.5%, which is within the acceptable limit. Based on the above, staff recommends that no adjustment is necessary.

ISSUE 6: What are the used and useful percentages for the water treatment plant and water distribution system?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The distribution system should be considered 76.37% used and useful. As a result, rate base should be decreased by $31,432, with corresponding decreases to depreciation expense of $1,120 and property taxes of $239. (MUNROE, BINFORD)

STAFF ANALYSIS:

Water Treatment Plant

Although the wells and storage yield a firm reliable capacity of 2.2 million gallons per day (mgd), the aeration-sand filtration limits the plant to 1.231 mgd. The hydraulic capacity of the water treatment plant is therefore 1.231 mgd and the average flows from the 5 maximum days in the maximum month was .992 mgd. When fire flow (.240 million gallons) and a growth allowance of 5,523 gallons per day (gpd) is included, the results indicate that the plant is 100% used and useful. This is calculated by taking the five maximum days average flow to which are added the growth allowance and the fire flow requirement and subtracting the excess unaccounted for water which produces the flows that are then divided by the plant capacity. The calculation is summarized in Attachment A, page 1, following this issue. The utility used the same method in its MFRs to calculate a requested 100%, but failed to include the required 5-year growth allowance.

Water Distribution System

Usage indicates that a lot to lot or equivalent residential connection (ERC) to ERC calculation would be immaterially different. This is because there are no general service customers with high consumption. Therefore, staff has used lot to lot in the calculation of the water distribution system used and useful.

The utility engineer, Mr. Guastella, furnished staff with a detailed street by street analysis of the distribution system. Along with this data, Mr. Guastella proposed exceptions to be made in the used and useful calculation: (1) all lines 6 inches to 10 inches in diameter be considered transmission mains and, therefore, should be considered 100%; (2) all streets with a lot count of 50% or greater should be considered 100%; and (3) a minimum of 10% be used for all streets with less than 10% of available lots occupied.

Because of the great variance in the age and cost of the distribution lines, the staff agrees with the method used by the utility's engineer with the following exceptions for lines smaller than 6 inches in diameter: (1) lines with 50% of the lots connected will not be considered 100% used and useful, but the percentage should be based on actual percentages resulting from lot counts, and (2) a minimum of 10% used and useful should not be used for lines with a used and useful less than this value, but these lines should reflect the actual percentages resulting from lot counts. Staff agrees that all mains 6 inches in diameter and larger should be considered 100% used and useful. The resulting percentages should be considered individually and applied to the specific line's cost.

After verifying line cost by checking utility records on site, staff used system maps to determine each line's used and useful percentage, taking into account the two exceptions. Using the staff calculated numbers and allowing for a five year growth, the result is 76.37% used and useful. Without these additional engineering considerations, a used and useful percentage of 54.99% results (Attachment A, page 2).

Although this method is a departure from commission practice, it is similar to the method used in the Rotonda West Utility Corporation. (See Order No. PSC-96-0663-FOF-WS, issued May 13, 1996, in Docket No. 950336-WS). This method was approved because additional engineering information was available and supplied by the utility in the MFRs, resulting in a more accurate used and useful analysis. Similarly, in this case, additional engineering information was provided which permitted staff to make a more accurate used and useful analysis under these circumstances. Staff believes it is reasonable to use this method.

Conclusion

In view of the results presented above, staff recommends that the Commission find the utility's used and useful percentages as follows: Water Plant - 100% and Water Distribution system - 76.37%.

Based on the above, staff recommends the following non-used and useful amounts and adjustments.

Non-used and useful Amounts

	Amount Per Utility	Amount Per Staff	Adjustments Per Staff
Plant in Service	($149,433)	($197,604)	($48,171)
Accumulated Depreciation	$53,681	$70,420	$16,739
Net Non-used and useful	($95,752)	($127,184)	($31,432)
Depreciation Expense	($3,475)	($4,595)	($1,120)
Property Taxes	($1,164)	($1,403)	($239)

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000295-WU - Placid Lakes Utilities, Inc.

1)	**Firm Reliable Capacity of Plant**	706,000	gallons per day
2)	**Average of 5 Highest Days From Maximum Month**	487,400	gallons per day
3)	**Average Daily Flow**	283,767	gallons per day
4)	**Fire Flow Capacity**	120,000	gallons per day

a) Required Fire Flow: 1,000 gallons per minute for 2 hours

5) **Growth**

a)	Test year Customers in ERCs:	Begin	1,450
		End	1,519
		Average	1,485

(Use average number of customers)

b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	61	ERCs
c)	Statutory Growth Period	5	Years

(b)x(c)x [2/(a)]= 100,106 gallons per day for growth

6)	**Excessive Unaccounted for Water**	0	gallons per day
a)	Average Unaccounted for Water	7,101	gallons per day
	Percent of Average Daily Flow	2.50%	
b)	Reasonable Amount	28,377	gallons per day
	(10% of average Daily Flow)		
c)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 100.0% Used and Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 000295-WU - Placid Lakes Utilities, Inc.

1)	**Capacity of System**	3,255	lots
2)	**Test year connections**		
	a) Beginning of Test Year	1,381	lots
	b) End of Test Year	1,437	lots
	c) Average Test Year	1,485	lots
3)	**Growth**	305	lots

(Use End of Test Year and End of Previous Years for growth connections)

a) customer growth in connections for last 5 years including Test Year using Regression Analysis	61	lots
b) Statutory Growth Period	5	Years

(a)x(b) = 305 lots allowed for growth

USED AND USEFUL FORMULA

[(2+(3)]/(1) = 54.99% Used and Useful **

** See Distribution System Discussion (pages 11 and 12). The calculation shown above is done for comparison purposes only.

ISSUE 7: What is the appropriate working capital?

RECOMMENDATION: The appropriate amount of working capital is $36,537 for the water system. (BINFORD)

STAFF ANALYSIS: The utility has calculated its working capital allowance pursuant to Rule 25-30.433 (2), Florida Administrative Code, which requires Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses. Staff is recommending adjustments to O&M expenses as discussed in later issues. Based on the adjusted balance of O&M expenses, staff's recommended working capital provision for Placid Lakes is $36,537 for the water system.

ISSUE 8: What is the appropriate rate base?

RECOMMENDATION: The appropriate rate base for the test year ended December 31, 1999 is $562,673 for the water system. (BINFORD)

STAFF ANALYSIS: Based on staff's recommended adjustments and use of a simple average test year, the average rate base for the utility is $562,673 for the water system. The rate base schedule for the water system is attached as Schedule 1-A. The schedule of adjustments to rate base is attached as Schedule 1-B.

COST OF CAPITAL

ISSUE 9: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

RECOMMENDATION: The weighted average cost of capital is 10.50% for the test year ended December 31, 1999. Although the utility's capital structure is comprised of 100% debt, staff recommends a return on equity of 9.93% with a range of plus or minus 100 basis points. (MAUREY)

STAFF ANALYSIS: Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the developer of the service territory served by the utility. The utility has requested a 10.97% overall rate of return in this proceeding. This return is based upon the parent company's capital structure comprised of 20.6% preferred stock at a cost rate of 7.0% and 79.4% common equity at a cost rate of 12.0%. According to its petition, "(t)he requested return on equity for final rates is proposed to be established at 200 basis points above the Applicant's estimated cost of debt."

According to the MFR schedules, the capital structure for Placid Lakes for the year ended December 31, 1999, was comprised of negative common equity and advances from associated companies. LPHC acknowledges that the source of funds for utility operations comes entirely from LPHC and that the utility's actual capital structure is essentially 100% debt. According to the utility's response to Audit Disclosure No. 11, the LPHC loans to the utility are at a rate of Prime plus 1%. Based upon a current Prime rate of 9.5%, the interest rate on advances from associated companies is 10.5%. Accordingly, staff recommends a weighted average cost of capital of 10.5% based upon the utility's actual capital structure of 100% debt.

Although the utility does not have a positive equity balance, an ROE should be established. Based upon the minimum equity ratio recognized in the leverage formula approved in Order No. PSC-00-1162-PAA-WS issued June 26, 2000, the cost of common equity is 9.93% with a range of plus or minus 100 basis points.

As noted in various filings in this proceeding, the utility takes exception to the ROE indicated by the leverage formula because it does not believe this rate of return reflects its cost of capital. In its response to Audit Disclosure No. 11, the utility states that "(w)hen, as in this case, the FPSC's leverage

graph produces an equity rate significantly less than the lower risk debt rate that the Company pays with respect to certain loans from its parent, and less than it could possibly obtain from outside sources, the leverage graph cannot be used." As noted above, the utility has requested an ROE of 12.0% for purposes of establishing final rates in this proceeding.

Other than a brief discussion of how the indicated ROE compares with its estimated cost of debt, the utility has not provided any analysis to support an ROE other than the rate indicated by the leverage formula. Absent competent, substantial evidence to support a different ROE, staff is compelled to recommend the ROE indicated by the Commission's leverage formula for purposes of this proceeding. Schedule 2 details staff's recommendation.

ISSUE 10: Should the utility be allowed an AFUDC rate and, if so, what should it be?

RECOMMENDATION: The Commission should approve an AFUDC rate of 10.50% and a monthly discounted rate of 0.874579% effective January 1, 2000, based on the December 31, 1999 capital structure approved in this docket. (BINFORD)

STAFF ANALYSIS: By letter dated December 13, 2000, the utility requested approval of an AFUDC rate for prospective purposes based on the 10.97% rate of return requested in this rate case. Staff agrees that a prospective AFUDC rate should be established. However, the rate should be calculated based on the capital structure approved by the Commission in this case. Based on staff's recommended capital structure in Issue 9, and in accordance with Rule 25-30.116 (7), Florida Administrative Code, staff recommends an AFUDC rate of 10.50%. The monthly discounted rate should be 0.874579%. The effective date of the rate should be January 1, 2000, in accordance with Rule 25-30.116(5), Florida Administrative Code, which states that the new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate. Staff's calculations are in accordance with Rule 25-30.116 (2), Florida Administrative Code, based on the capital structure for the twelve months ending December 31, 1999.

NET OPERATING INCOME

ISSUE 11: Should adjustments be made to O&M expenses to reflect several miscellaneous adjustments?

RECOMMENDATION: Yes, O&M expenses should be decreased by $821 to reflect several miscellaneous adjustments. (BINFORD)

STAFF ANALYSIS: In Audit Disclosure No. 6, the staff auditors found that the utility included wastewater related expenses as water expenses. According to the utility, it has a small wastewater plant that serves a customer base that is not large enough to be regulated by the PSC. The utility agreed that the invoices in question were inadvertently included in the water expenses. The auditors recommended that O&M expenses should be decreased by $1,521.

The auditors also found that the utility included a charitable contribution as an operating expense. Order No. 24049, issued January 31, 1991, in Dockets Nos. 891231-TL and 891239-TL, states that charitable contributions and civic membership fees should not be included in operating expense. Based on this order and Commission practice, the auditors recommended that O&M expenses should be decreased by $50.

Another item the auditors found was an invoice for chemical expenses of $750 that was not included in operating expense. The auditors believed that this was a prudent expense and should be included.

Staff has reviewed these adjustments and we believe that they are appropriate. Staff recommends a net decrease to O&M expenses of $821 to reflect the audit findings discussed above.

ISSUE 12: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate amount of rate case expense for this docket is $84,393. This expense is to be recovered over four years for an annual expense of $21,098. This results in a decrease to the utility's filing of $17,476 in annual amortization. Further, non-recurring costs should be increased by $6,919, contractual services-legal should be increased by $1,452, and management fees should be decreased by $2,351. (BINFORD, MERCHANT)

STAFF ANALYSIS: The utility included a $154,295 estimate in the MFRs for current rate case expense. As part of the analysis, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The revised estimate of rate case expense through completion of the Proposed Agency Action (PAA) process is $165,482. The components of the estimated rate case expense are as follows:

		REVISED ESTIMATE		
	MFR ESTIMATED	ACTUAL	ESTIMATED	TOTAL
Accounting/Engineering	$118,100	$119,742	$9,500	$129,242
Legal	27,000	16,478	10,320	26,798
In House	4,195	3,507	650	4,157
Other	5,000	5,285	0	5,285
Current Rate Case Expense	$154,295	$145,012	$20,470	$165,482
Annual Amortization	$38,574			$41,371

Section 367.081(7), Florida Statutes states that:

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

Staff has examined the requested actual expense, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that several adjustments are necessary to the utility's requested rate case expense.

Accounting/Engineering Fees

In its MFRs, the utility requested accounting/engineering rate case expense of $118,100. Upon staff's request, the utility submitted a breakdown of actual accounting/engineering expense, which totaled $119,742. With the utility's estimate to complete, the revised total accounting/engineering rate case expense was $129,242.

The accounting/engineering consulting firm included invoices totaling $65,137 for rate case expense prior to the approval of the test year. The invoices contained general descriptions of the work performed and the total hours worked by each consultant. No breakdown was provided to show what specific activities were performed during this time. Given the dollar amount of the consulting fees, it is apparent to staff that the firm performed a substantial amount of work prior to test year approval. In order to review the reasonableness of these costs, staff reviewed the activities that we were aware occurred during this time.

By letter dated March 8, 2000, the utility requested approval of a projected test year ended December 31, 1999, based on the historical year ended December 31, 1998. Upon receipt of this letter, staff telephoned the utility's attorney and informed him that an historical 1998 base year was too old. Since it was already March 2000 at that time, staff recommended that the utility instead use an historical test year ended December 31, 1999. The utility withdrew its original request by letter dated March 9, 2000. By letter dated March 10, 2000, the utility requested approval of a historical test year ended December 31, 1999.

Staff recognizes that some preparatory work needs to be completed prior to requesting test year approval. The test year approval rule requires that certain information be analyzed by the utility in order to inform staff as to the appropriateness of the requested test year. It is also prudent for a utility to look at its current operating status as well as its near-future needs in tailoring a test year request. Staff recognizes that work could reasonably be performed in analytical review of the most recent fiscal year as well as review of prior orders, statutes and Commission rules. On its invoices for this time frame, the consultants listed explanations such as inspection of facilities, work on used and useful, analysis and correction of partial MFRs prepared by the previous accounting firm, and preliminary review of response to the consultant's data request to the utility. Each invoice contained descriptions of the work performed and the total hours worked by each consultant. The individual job functions were

not itemized by the individual who performed the work or the number of hours spent on each task. Thus, staff has no method to determine how much of these costs are prudent rate case costs, non-recurring accounting fees or unreasonable and duplicative expenses. We do, however, believe that the total cost incurred by the utility's consultant during this time frame was in excess of the type of work that is normally performed prior to test year approval.

Additionally, staff was informed by the consultant that the utility's books were not in total compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) when its consultant was hired. Staff notes that our audit staff did not find material non-compliance of the utility's books with the USOA during the audit. Thus, staff believes that the work that the consultant performed in this regard was prudent and reasonable. As such, these costs should be allowed but they should not be considered rate case expense. Staff believes that these costs should be considered non-recurring accounting services. According to Rule 25-30.433(8), Florida Administrative Code, non-recurring expenses shall be amortized over a five year period unless a shorter or longer period can be justified. Staff believes that it is appropriate to amortize these costs over 5 years. Since the utility has corrected any potential non-compliance with the NARUC USOA, staff does not believe that any rule violation has occurred, nor is an issue addressing any show cause action necessary.

Staff is also aware that the consulting firm performed work preparing MFRs prior to test year approval for a test year that was rejected. While not a requirement, staff believes that it is prudent for a utility to discuss with staff what test year may or may not be appropriate before any work is performed on any specific year. To perform this work and then have to re-do a substantial portion because the test year was unaccepted is imprudent. A simple phone call to staff could have communicated staff's concern about a stale test year. As such, staff believes any rate case expense incurred for this should be disallowed. The Commission has recently disallowed similar rate case costs incurred for a test year that was rejected. See Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU. While portions of that PAA order were protested and are not final, this specific issue was not protested and is, therefore, deemed stipulated pursuant to Section 120.80(13)(b), Florida Statutes.

Because no breakdown was provided to show what specific activities were performed during this time, staff does not know the

exact amount of costs incurred for each of the activities above. It is the utility's burden to prove that its requested costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d 1187, 1191 (1982). Further, the Commission has broad discretion with regard to rate case expense. Florida Crown Utility Services, Inc. v. Utility Regulatory Bd. of Jacksonville, 274 So.2d 597, 598 (Fla. 1st DCA 1973). In lieu of an actual breakdown, staff has estimated that 10% of the rate case expense incurred prior to the approval of the test year is reasonable for pre-test year approval costs. This amounts to $6,514. We have also estimated that the remaining costs be split evenly, or 45% to non-recurring accounting costs and 45% to costs incurred on an inappropriate and rejected test year. This results in $29,312 considered nonrecurring expenses to be amortized over five years. The increase to amortization should be $5,862. Further, rate case expense should be reduced by $29,312 for unreasonable expenses on work performed prior to test year. The total reduction to rate case expense related to pre-test year approval cost is $58,624.

Staff has also reviewed the remaining charges for accounting/engineering costs. Mr. Guastella is the principal of the consulting firm hired by the utility to work on the rate case and he performed the engineering portion of the work. Mr. Guastella charged the utility for 91.5 hours at an average hourly rate of $230 an hour. Staff believes that this hourly rate is high compared to other engineering and rate consultants that practice before the Commission. While staff believes that 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.

Staff reviewed past rate proceedings in an attempt to determine what hourly rates have been allowed by the Commission for Mr. Guastella. In Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, in Docket No. 951056-WS, Mr. Guastella's hourly rate was adjusted downward to an approximate average of his hourly rate and another engineering consultant involved in that proceeding. The other engineering consultant is Mr. Frank Seidman, whose main area of expertise is engineering but who also provides accounting and rate consulting services. In the following year, in Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, the Commission also adjusted Mr. Guastella's hourly rate downward. Based on past Commission decisions, staff believes it is appropriate to adjust rate case expense to an hourly rate which we believe to be more reasonable for the ratepayers of Placid Lakes. For the instant rate case, staff averaged Mr. Guastella's hourly rate and Mr. Seidman's hourly rate as charged in Docket No. 991437-WU. This results in a reduction of $5,990 to accounting and engineering rate case expense.

Further, the utility included $8,467 of accounting/engineering fees incurred in correcting MFR deficiencies. The utility filed its MFRs with the Commission on June 9, 2000. After reviewing the information in the MFRs, staff determined that there were deficiencies. By letter dated June 28, 2000, staff informed the utility of five specific deficiencies in the MFRs. Some of the specific deficiencies included failure to submit a breakdown of expenses from a parent, affiliate, or related parties, and the failure to submit required information regarding the parent's capital structure.

The utility submitted its first deficiency response on July 28, 2000. After reviewing the information, staff determined that the MFRs were still incomplete and sent another deficiency letter on August 4, 2000. The utility submitted the information on August 11, 2000. Staff believes that the cost to re-do some schedules of the MFRs would not have been incurred if the utility had done the schedules correctly when it submitted its MFRs the first time.

The official filing date was established on August 11, 2000, after the utility had completely satisfied the minimum filing requirements. Staff believes that all expenses incurred pertaining to deficiencies on the MFRs for the period of June 28, 2000 through August 11, 2000, in the amount of $8,467 for accounting/engineering fees are unreasonable. Therefore, staff recommends that this cost be disallowed as rate case expense. The Commission has previously disallowed rate case expense incurred for revising MFRs and correcting MFR deficiencies. (See Order No. PSC-00-2054-PAA-WS, issued October 27, 2000, in Docket No. 990939-WS and Order No. PSC-00-1528-PAA-WU.

The utility submitted an estimated additional cost of $9,500 in accounting fees to complete the rate case through the PAA. This estimate did not include a breakdown of the work that would be performed for the remainder of the case. Staff believes that 30 hours plus travel expense for one person, or $5,500, is sufficient. The number of hours is consistent with the number of hours recommended for legal fees to cover the review of the recommendation, attendance at agenda, and review of the PAA order, if not protested. This is the same amount of time that was allowed by the Commission in the recent Indiantown Company, Inc. rate case docket which was also processed as a PAA. (See Order No. PSC-00-2054-PAA-WS). This results in a reduction of $4,000.

To summarize, staff believes that the appropriate amount of accounting/engineering fees for this rate case is $52,162. This is

a reduction of $77,080 from the utility's revised estimate for accounting/engineering fees of $129,242.

Legal Fees

In its MFRs, the utility requested legal rate case expense of $27,000. As requested by staff, the utility submitted a breakdown of actual legal expenses incurred, which amounted to $16,478. With the utility's estimate to complete, the revised total legal rate case expense was $26,798. Based on our review, staff believes that legal rate case expense is reasonable except as addressed below.

Staff believes that all legal expenses incurred pertaining to MFR deficiencies, as explained in the accounting/engineering section of this issue, should be disallowed. For the period of June 28, 2000 through August 11, 2000, staff recommends that legal fees in the amount of $2,569 should be disallowed.

Our analysis of the supporting documentation for rate case expense submitted by the utility revealed $1,690 in legal fees, which were incurred for items not related to the present rate case. The items in question were invoices for a tariff filing, a waiver of a four-year rate reduction for prior rate case expense, and a settlement agreement. Staff believes that these were prudent and reasonable costs. However, they should be reclassified as contractual services-legal. Staff also found $238 recorded as contractual services-legal that should be considered rate case expense. Accordingly, staff believes that rate case expense should be decreased by a net amount of $1,452 with a corresponding increase of $1,452 to contractual services-legal.

The utility submitted an estimated additional cost of $10,320 for 48 hours in legal fees to complete the rate case through PAA. This estimate did not include a breakdown of the legal work that would be performed for the remainder of the case. Staff believes that 30 hours, or $6,450, is sufficient for legal fees to cover the review of the recommendation, attendance at agenda, and review of the PAA order, if not protested. This is the same amount of time that was allowed by the Commission in Order No. PSC-00-2054-PAA-WS. This amounts to a reduction of $3,870.

To summarize, staff believes that the appropriate amount of legal rate case expense is $18,670. This is a reduction of $8,129 from the utility's revised estimated legal fees of $26,798.

In House Rate Case Expenses

In its explanation of management fees, the utility's parent determined that the salary of one of its employees should be increased by 25% due to additional time spent on the rate case ($37,618 x 25% = $9,404). In the MFRs, the utility added 1/4 of this additional expense ($9,404/4 = $2,351) to management fees but did not include it in rate case expense. While the overall revenue impact is zero, staff believes that the amount should appropriately be included as rate case expense. Therefore, management fees should be decreased by $2,351 and rate case expense should be increased by $9,404.

Other Accounting Costs

Prior to hiring its current accounting/engineering consultant, the utility contracted its work to a regional accounting firm. According to the staff auditors, the regional accounting firm was not able to meet the demands of preparing the utility for its rate case. Although less than a third of the regional firm's costs were included in rate case expense, staff believes that this amount should be considered a non-recurring expense and amortized over five years, consistent with Rule 25-30.433(8), Florida Administrative Code. This results in a decrease to rate case expense of $5,285 and an increase to non-recurring amortization of $1,057.

Summary

After a thorough evaluation of the revised and estimated rate case expense submitted by the utility, staff recommends that the appropriate total rate case expense through the PAA process for this docket is $84,393. We believe that this is a reasonable amount.

	MFR ESTIMATED	UTILITY REVISED ACTUAL	STAFF ADJUSTMENTS	STAFF ADJUSTED BALANCE
Accounting/Engineering	$118,100	$129,242	($77,080)	$52,162
Legal	27,000	26,798	(8,129)	18,670
In House	4,195	4,157	9,404	13,561
Other	5,000	5,285	(5,285)	0
Total Rate Case Expense	$154,295	$165,482	($81,090)	$84,393
Annual Amortization	$38,574		(17,476)	$21,098

The recommended rate case expense should be amortized over four years, pursuant to Section 367.0816, Florida Statues, at $21,098 per year. Based on the data provided by the utility and the staff recommended adjustments discussed above, staff recommends that the rate case expense amortization should be decreased by $17,476. This is the difference between the $21,098 amortization recommended by staff and the $38,574 included in the MFRs.

Further, non-recurring costs should be increased by $6,919, contractual services legal should be increased by $1,452, and management fees should be decreased by $2,351.

ISSUE 13: Should an additional adjustment be made to property taxes?

RECOMMENDATION: Yes. Property taxes should be decreased by $535 for the water system to reflect the full discount available. (BINFORD)

STAFF ANALYSIS: For the test year, the utility reflected property taxes of $13,373 for the water system. The amount was based on the actual property taxes due as of March 31, 2000, without any discount applied. The utility made two adjustments to this amount. The first adjustment decreased property taxes by $1,146 for non-used and useful plant. The second adjustment increased property taxes by $895 for test year changes to plant in service. This resulted in a requested expense for property taxes of $13,122.

In Audit Exception 9, the staff auditors discovered that the utility did not take advantage of the property tax discount for payments made in November. Applying the standard 4% discount rate, staff recommends reducing property taxes by $535. This adjustment is consistent with the Commission's practice. (See Order No. 6591, issued April 1, 1975, in Docket No. 74509-EU and Order No. 9599, issued October 17, 1980, in Docket No. 800011-EU).

ISSUE 14: Should income tax expense be included in Placid Lakes' operating expenses?

RECOMMENDATION: No. Since the utility's capital structure consists of 100% debt, no taxable income exists and thus the utility should not receive recovery of income tax expense. (BINFORD)

STAFF ANALYSIS: As addressed in Issue 9, staff is recommending that the utility's capital structure be considered 100% debt. When a capital structure consists of 100% debt, the entity has no taxable income. Accordingly, no income tax expense will be generated. As a result, the utility's requested income tax expense should be removed.

ISSUE 15: What is the test year operating income (loss) before any revenue increase?

RECOMMENDATION: The test year operating loss is $101,955 for the water system. (BINFORD)

STAFF ANALYSIS: Based on the adjustments discussed in previous issues, staff recommends that the test year operating income, before any provision for increased revenues, should be an operating loss of $101,955 for the water system. The schedule for the water operating income is attached as Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

ISSUE 16: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (BINFORD)

	Revenues	Increase	Percentage
Water	$417,316	$168,624	67.80%

STAFF ANALYSIS: The revenue requirement is a summary computation that is dependent upon previously approved provisions for rate base, cost of capital, and operating expenses. Placid Lakes requested final rates designed to generate annual revenues of $485,481 for the water system. These revenues exceed test year revenues by $232,233 (91.70%)

Based on staff's proposed recommendations concerning the underlying rate base, cost of capital, and operating income issues, we recommend approval of rates that are designed to generate a revenue requirement of $417,316. These revenues exceed staff's recommended test year revenues by $168,624 (67.80%) as shown on attached Schedule 3-A.

ISSUE 17: Should the utility's current rate structure be changed to an inclining-block rate structure, and, if so, what are the appropriate usage blocks, conservation adjustment and rate factors to be used?

RECOMMENDATION: Yes, the rate structure should be changed to an inclining-block rate structure for residential customers. The appropriate monthly usage blocks consist of three tiers of 0-10,000 gallons, 10,001-20,000 gallons and over 20,000 gallons. A conservation adjustment of 25% is appropriate, with usage block rate factors for each tier of 1.0, 1.5 and 2.0, respectively. The appropriate rate structure for the general service customers is a continuation of the traditional base facility and uniform gallonage charge rate structure. (LINGO)

STAFF ANALYSIS: The utility's current rate structure consists of a traditional base facility charge and uniform gallonage charge. The utility has proposed a three-tier (block) inclining block rate structure to be applicable to the residential class, with usage blocks for monthly consumption set at: (1) at 0-10,000 gallons; (2) 10,001-40,000 gallons; and (3) in excess of 40,000 gallons. In addition, the utility has proposed usage block rate factors for each tier of 1.0, 1.5 and 2.0, respectively. The utility has proposed maintaining its base facility and uniform consumption charge rate structure for its general service class. The Southwest Florida Water Management District advocates this rate structure change, because the utility is located in a water use caution area (WUCA), and SWFWMD has long advocated rate structures that provide pricing incentives to conserve.

There are several steps involved in evaluating and calculating an inclining-block rate structure including (but not limited to) determining: 1) the appropriate "conservation adjustment," if any; 2) the appropriate usage blocks; and 3) the appropriate usage block rate factors. Staff agrees in part and disagrees in part with the utility's proposed rate structure and methodology of calculating its requested rates. Our analysis is discussed below.

Selection of Appropriate Usage Blocks

As mentioned previously, the utility proposed a three-tier inclining-block rate structure for its residential class, with usage block break points at 10 thousand gallons (kgal) and 40 kgal. In order to determine whether these usage blocks are appropriate, staff analyzed the utility's combined residential billing analysis. The summary results are shown on the next page:

SUMMARY OF RESIDENTIAL BILLING ANALYSIS		
Consumption (kgal)	Percentage of Cumulative Bills	Consolidated Factor Percentage
0	10.9%	0.0%
10	86.3%	78.9%
15	93.5%	87.5%
20	96.3%	91.9%
30	98.6%	96.1%
40	99.4%	97.6%

As shown in the above table, over 86% of all residential bills and almost 80% of all residential gallons have been accounted for at 10 kgal, meaning that the great majority of customers do not exhibit excessive usage and will therefore be unaffected by the higher rates in the two subsequent inclining blocks. Therefore, we believe it is reasonable to have the first usage block capped at 10 kgal. Capping the first usage block at 10 kgal captures almost 80% of the gallons in the first block, thereby somewhat mitigating revenue stability concerns, and is consistent with the Commission's past decisions regarding inclining-block rate structures. (See PSC-00-0248-PAA-WU and PSC-00-1528-PAA-WU. Although PSC-00-1528-PAA-WU has been protested and set for hearing, the design of the usage blocks is not at issue.)

However, staff disagrees with the utility's proposal for the second block to be capped at 40 kgal of consumption and for the third block to apply to consumption in excess of 40 kgal. First, staff does not believe that sufficiently strong conservation signals are sent by making the kgal included in the second block three times greater than the number of kgal in the first block. For example, the overall system-wide average residential consumption per month is approximately 6 kgal. To cap the second block at 40 kgal means that a residential customer could use over six times the overall system-wide residential average (6 kgal x 6 = 36 kgal) without moving (or paying) out of the second usage block. Further, the block in excess of 40 kgal would target barely one-half of one percent of bills (100% - 99.4%) and less than three percent of consumption (100% - 97.6%).

Neither staff nor the SWFWMD believe that the proposed second and third usage blocks target consumption sufficient to realize any

meaningful conservation. Selecting the appropriate usage blocks often involves analyzing several different combinations of usage blocks before a decision regarding the appropriate blocks is made. However, in this case, staff believes that the three monthly usage blocks of 0-10,000 gallons, 10,001-20,000 gallons and over 20,000 gallons are self-evident.

We believe the second block should be for monthly consumption at 10 kgal - 20 kgal for several reasons. First, we believe usage blocks capped at 10 and 20 kgal per month, respectively, increases the customers' ease of understanding of the rate structure. Second, we believe capping the second block at a monthly usage level below 20 kgal may unfairly penalize larger families, as the monthly consumption based on the SWFWMD's 130 gallons per day per capita (gpdpc) target would be 19,500 gallons (5 persons x 130 gpdpc x 30 days). Third, by capping the second block at some consumption level above 20 kgal per month, we do not believe the rate structure would target a sufficient number of bills and gallons to maximize the desired reduction in consumption. For example, as shown in the table on the preceding page, a second block capped at 30 kgal per month would affect 1.4 percent of bills, accounting for the remaining 3.9 percent of consumption. Even worse, capping the second block at 40 kgal per month would barely target one-half of one percent of bills and the last 2.4 percent of consumption. However, by capping the second block at 20 kgal per month, we are target 3.6 percent of the bills, accounting for the last 8.1 percent of consumption.

It is both our and the SWFWMD's desire, due to the circumstances discussed earlier, to target the maximum consumption possible in hopes of forestalling potential water supply problems. We believe that this goal is best accomplished by capping the second block at 20 kgal per month.

Selection of the Appropriate Conservation Adjustment and Usage Block Rate Factors

To evaluate the need for a conservation adjustment in this case, staff (based on our preliminary recommended revenue requirement) calculated cost-based rates of $11.09 for the base facility charge (BFC) for a 5/8" x 3/4" meter and $2.03 for the general service gallonage charge. These charges would result in 48% of cost recovery through the BFC and 52% through the gallonage charge. To shift more of the burden of cost recovery to the gallonage charge to promote conservation, staff believes that some "conservation adjustment" is appropriate. Based on the utility's proposal, all general service customers would pay $2.03 per kgal.

Staff believes that the overall rate increase should be enough to promote some conservation by the general service customers.

Staff and the SWFWMD believe that 60% of cost recovery via the gallonage charge should be the minimum starting point when designing an inclining-block rate structure. Staff first made a 10% conservation adjustment before designing the rates; however, this resulted in less than a 40% BFC/60% gallonage charge cost recovery split. We then applied a 15% conservation adjustment, which resulted in a 41%/59% split. We believe this split is tantamount to a 40%/60% split; therefore, we applied a 15% adjustment as the minimum adjustment to try in our conservation rate design process. We also included similar adjustments of 20% (resulting in a 39%/61% split) and 25% (resulting in a 36%/64% split).

The next step in our analysis was to incorporate different usage block rate factors into our calculations. We calculated rates (using the preliminary recommended revenue requirement) based on 19 different rate factor combinations at conservation adjustments of 15%, 20% and 25%. We then selected five representative rate factor combinations to present in Table 1, included at the end of this issue. Pages 1 through 3 of Table 1 show consumption charges (charges excluding the BFC) that were calculated at different usage levels, and the resulting price increases in the gallonage charges over the current rates at those different usage levels. We also calculated the total change in price (BFC plus gallonage charges); this analysis is shown on page 4 of Table 1.

It is virtually impossible to merely look at the results on page 4 of Table 1 to select the rate design which best meets our conservation rate design goals. We therefore designed an objective method of evaluating each of the 15 different sets of inclining-block rates.

Because there are two variables (the magnitude of conservation adjustment and the different combinations of rate factors) in the rates calculations, our evaluation of the 15 sets of rates was a two-step process. First, we evaluated the usage block rate factors against one another while holding the conservation adjustment and consumption level constant. For example, as shown on page 4 of Table 1, at a conservation adjustment of 20% and 5 kgal of consumption, the range of total price changes across the different rate factors is 50.9% to 37.3%. A double thick-line box was selected to indicate that the 50.9% price increase sends the strongest price signal to conserve. Similarly, at a conservation

adjustment of 20% and 40 kgal of consumption, the range of total price changes across the different rate factors is 176.8% to 285.0%. Again, a double thick-line box highlights that the 285.0% price increase sends the strongest price signal to conserve. This process was performed for each conservation adjustment and kgal consumption level.

We then reversed the process, evaluating the conservation adjustments against one another while holding the rate factors and consumption level constant. For example, as shown on page 4 of Table 1, at 5 kgal of consumption, the rate factors of 1.0/1.5/2 result in respective price changes of 51.7%, 50.9% and 49.7% at conservation adjustments of 15%, 20% and 25%. A shaded box highlights that the 51.7% price increase sends the strongest price signal to conserve. Similarly, at 40 kgal of consumption, the rate factors of 1.0/1.5/4 result in price changes of 270.2% at a conservation adjustment of 15%, 285.0% at a conservation adjustment of 20% and 297.8% at a conservation adjustment of 25%. Again, 297.8% is shaded because it sends the strongest price signal to conserve.

The final step in evaluating the different combinations was to look at the results to see if there is a particular rate design which results in the greatest number of strong price signals across all levels of consumption, especially at the higher consumption levels. For example, the rates based on a 15% conservation adjustment and rate factors of 1.0/1.5/2 sends strong price signals (whether by the conservation adjustment or by the rate factors) at consumption levels up to 10 kgal. However, we dismissed this rate design from consideration because it fails to achieve our goal of sending stronger price signals to customers at higher consumption levels. Further, the rate design based on a conservation adjustment of 20% and rate factors of 1.0/1.5/3 received no consideration, because it did not achieve stronger price signals relative to the other rate designs at <u>any</u> level of consumption.

However, three examples of rate designs receiving some consideration include those based on a 25% conservation adjustment with rate factors of: a) 1.0/1.5/4; b) 1/2/3; and c) 1.0/2/4. As indicated, at consumption of 10 kgal and above, all three of these rate designs are effective at sending strong signals to conserve.

However, a rate design based on a 25% conservation adjustment and rate factors of 1.0/1.5/2 is clearly the most appropriate. It is the <u>only</u> rate design of the 15 different rate designs depicted on page 4 of Table 1 which, whether by the conservation adjustment

or the specific combination of rate factors, results in strong pricing signals at each consumption level.

Based on the analysis discussed above, staff recommends that the rate structure should be changed to an inclining-block rate structure for residential customers. The appropriate monthly usage blocks consist of three tiers of 0-10,000 gallons, 10,001-20,000 gallons and over 20,000 gallons. A conservation adjustment of 25% is appropriate, with usage block rate factors for each tier of 1.0, 1.5 and 2.0, respectively. The appropriate rate structure for the general service customers is a continuation of the traditional base facility and uniform gallonage charge rate structure.

TABLE 1

SELECTION OF CONSERVATION ADJUSTMENT AND USAGE BLOCK RATE FACTORS (RATES BEFORE REPRESSION ADJUSTMENT)						
		Inclining-Block Rates @ 15% Conservation Adjustment				
Usage Blocks (kgal)	**Current Rates**	**1/1.5/2**	**1/1.5/3**	**1/1.5/4**	**1/2/3**	**1/2/4**
0-10	$1.14	$2.02	$1.89	$1.77	$1.80	$1.69
10-20	$1.14	$3.03	$2.84	$2.66	$3.60	$3.38
20+	$1.14	$4.04	$5.67	$7.08	$5.40	$6.76
Consump (kgal)	**Current Consump Charges**	**Inclining-Block Consumption Charges**				
1	$1.14	$2.02	$1.89	$1.77	$1.80	$1.69
5	$5.70	$10.10	$9.45	$8.85	$9.00	$8.45
10	$11.40	$20.20	$18.90	$17.70	$18.00	$16.90
15	$17.10	$35.35	$33.10	$31.00	$36.00	$33.80
20	$22.80	$50.50	$47.30	$44.30	$54.00	$50.70
30	$34.20	$90.90	$104.00	$115.10	$108.00	$118.30
40	$45.60	$131.30	$160.70	$185.90	$162.00	$185.90
Consump (kgal)		**Changes in Consumption Charges**				
1		77.2%	65.8%	55.3%	57.9%	48.2%
5		77.2%	65.8%	55.3%	57.9%	48.2%
10		77.2%	65.8%	55.3%	57.9%	48.2%
15		106.7%	93.6%	81.3%	110.5%	97.7%
20		121.5%	107.5%	94.3%	136.8%	122.4%
30		165.8%	204.1%	236.5%	215.8%	245.9%
40		187.9%	252.4%	307.7%	255.3%	307.7%

TABLE 1

SELECTION OF CONSERVATION ADJUSTMENT AND USAGE BLOCK RATE FACTORS (RATES BEFORE REPRESSION ADJUSTMENT)						
		Inclining-Block Rates @ 20% Conservation Adjustment				
Usage Blocks (kgal)	**Current Rates**	**1/1.5/2**	**1/1.5/3**	**1/1.5/4**	**1/2/3**	**1/2/4**
0-10	$1.14	$2.11	$1.97	$1.85	$1.87	$1.76
10-20	$1.14	$3.17	$2.96	$2.78	$3.74	$3.52
20+	$1.14	$4.22	$5.91	$7.40	$5.61	$7.04
Consump (kgal)	**Current Consump Charges**	**Inclining-Block Consumption Charges**				
1	$1.14	$2.11	$1.97	$1.85	$1.87	$1.76
5	$5.70	$10.55	$9.85	$9.25	$9.35	$8.80
10	$11.40	$21.10	$19.70	$18.50	$18.70	$17.60
15	$17.10	$36.95	$34.50	$32.40	$37.40	$35.20
20	$22.80	$52.80	$49.30	$46.30	$56.10	$52.80
30	$34.20	$95.00	$108.40	$120.30	$112.20	$123.20
40	$45.60	$137.20	$167.50	$194.30	$168.30	$193.60
Consump (kgal)		**Changes in Consumption Charges**				
1		85.1%	72.8%	62.3%	64.0%	54.4%
5		85.1%	72.8%	62.3%	64.0%	54.4%
10		85.1%	72.8%	62.3%	64.0%	54.4%
15		116.1%	101.8%	89.5%	118.7%	105.8%
20		131.6%	116.2%	103.1%	146.1%	131.6%
30		177.8%	217.0%	251.8%	228.1%	260.2%
40		200.9%	267.3%	326.1%	269.1%	324.6%

TABLE 1

SELECTION OF CONSERVATION ADJUSTMENT AND USAGE BLOCK RATE FACTORS (RATES BEFORE REPRESSION ADJUSTMENT)						
		Inclining-Block Rates @ 25% Conservation Adjustment				
Usage Blocks (kgal)	**Current Rates**	**1/1.5/2**	**1/1.5/3**	**1/1.5/4**	**1/2/3**	**1/2/4**
0-10	$1.14	$2.19	$2.05	$1.92	$1.94	$1.83
10-20	$1.14	$3.29	$3.08	$2.88	$3.88	$3.66
20+	$1.14	$4.38	$6.15	$7.68	$5.82	$7.32
Consump (kgal)	**Current Consump Charges**	**Inclining-Block Consumption Charges**				
1	$1.14	$2.19	$2.05	$1.92	$1.94	$1.83
5	$5.70	$10.95	$10.25	$9.60	$9.70	$9.15
10	$11.40	$21.90	$20.50	$19.20	$19.40	$18.30
15	$17.10	$38.35	$35.90	$33.60	$38.80	$36.60
20	$22.80	$54.80	$51.30	$48.00	$58.20	$54.90
30	$34.20	$98.60	$112.80	$124.80	$116.40	$128.10
40	$45.60	$142.40	$174.30	$201.60	$174.60	$201.30
Consump (kgal)		**Changes in Consumption Charges**				
1		92.1%	79.8%	68.4%	70.2%	60.5%
5		92.1%	79.8%	68.4%	70.2%	60.5%
10		92.1%	79.8%	68.4%	70.2%	60.5%
15		124.3%	109.9%	96.5%	126.9%	114.0%
20		140.4%	125.0%	110.5%	155.3%	140.8%
30		188.3%	229.8%	264.9%	240.4%	274.6%
40		212.3%	282.2%	342.1%	282.9%	341.4%

TABLE 1

SELECTION OF CONSERVATION ADJUSTMENT AND USAGE BLOCK RATE FACTORS (RATES BEFORE REPRESSION ADJUSTMENT)

		Changes in Total Price @ 15% Conservation Adjustment				
Consump (kgal)		1/1.5/2	1/1.5/3	1/1.5/4	1/2/3	1/2/4
1		37.8%	36.2%	34.8%	35.1%	33.8%
5		51.7%	46.7%	42.0%	43.2%	38.9%
10		59.6%	52.6%	46.1%	47.7%	41.8%
15		84.5%	75.2%	66.6%	87.2%	78.1%
20		100.0%	89.3%	79.3%	111.6%	100.6%
30		142.5%	174.2%	201.0%	183.9%	208.8%
40		166.7%	222.4%	270.2%	224.9%	270.2%
Consump (kgal)		Changes in Total Price @ 20% Conservation Adjustment				
1		32.1%	30.4%	29.0%	29.2%	27.9%
5		50.9%	45.5%	40.8%	41.6%	37.3%
10		61.4%	53.9%	47.4%	48.5%	42.5%
15		88.8%	78.7%	70.0%	90.6%	81.6%
20		105.8%	94.1%	84.1%	116.8%	105.8%
30		151.1%	183.5%	212.2%	192.7%	219.2%
40		176.8%	234.2%	285.0%	235.7%	283.7%
Consump (kgal)		Changes in Total Price @ 25% Conservation Adjustment				
1		26.5%	24.8%	23.2%	23.5%	22.1%
5		49.7%	44.3%	39.2%	40.0%	35.7%
10		62.7%	55.2%	48.2%	49.3%	43.3%
15		92.3%	82.2%	72.7%	94.1%	85.1%
20		110.6%	98.9%	87.9%	122.0%	110.9%
30		158.4%	192.8%	221.8%	201.5%	229.8%
40		185.6%	246.1%	297.8%	246.6%	297.2%
Legend:	= the greatest price chg across rate factors holding consump (kgal) & conservation adj constant (horizontal analysis)		= greatest price chg across conservation adj holding consump (kgal) & rate factors constant (vertical analysis)			

ISSUE 18: Is repression of consumption likely to occur, and if so, what is the appropriate adjustment and the resulting consumption to be used to calculate consumption charges?

RECOMMENDATION: Yes, repression of consumption is likely to occur. The appropriate repression adjustment is a reduction in consumption of 8,655 kgal, and the resulting consumption to be used to calculate consumption charges is 97,397 kgal. In order to monitor the effects of this rate proceeding on consumption, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed (by usage block for residential customers) and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: As shown on Workpaper - Rates II of Vol. IV of the utility's MFRs, the utility proposed that for consumption over 10 kgal per month, a 10% increase in rates would lead to a 1% decrease (repression) in consumption. As the calculations on the utility's workpaper indicate, the utility has proposed a 1,892 kgal (or 1.9%) consumption reduction for the residential class, and a 464 kgal (or 9.2%) consumption reduction for the general service class, resulting in an overall proposed repression adjustment of 2,356 kgal (approximately 2.2%).

Staff agrees in part and disagrees in part with the utility's proposed adjustments. While we agree that a repression adjustment should be made for the residential class, we do not believe an adjustment is appropriate for the general service class. Furthermore, we believe that residential consumption reductions will occur in all three usage blocks, yielding an adjustment greater than that proposed by the utility.

As shown on page 4 of Table 1, staff's preliminary rates (i.e., before repression adjustment), based on our recommended usage blocks, conservation adjustment and rate factors, yield anticipated total price changes ranging from 26.5% at 1 kgal to 62.7% at 10 kgal. Consumption at the 5.5 kgal average in this block yields a price increase of approximately 52%. Based on the magnitude of the expected price increases in this first block, we believe that a repression adjustment is warranted. Further, for bills with monthly consumption above 10 kgal, the increase in price will range from 70% to over 200%; therefore, we believe repression adjustments in the other two usage blocks are warranted as well.

However, we have no historical data of other utilities converting from a uniform consumption charge to an inclining-block consumption charge to use as a point of reference in determining an appropriate adjustment. Based on our analysis of utilities in our database, however, for utilities that did not experience a change in rate structure in rate proceedings, an average price increase of approximately 33% resulted in an approximate 7% reduction in consumption. Considering that a 7% reduction in consumption could be expected if there was no change in rate structure, staff used 7% as the floor for our recommended adjustments in this case, and believe it is an appropriate adjustment for the first usage block. Although the average price increase in the first usage block is greater than 33% (it is approximately 52%), staff does not believe a repression adjustment greater than 7% (5,580 kgal) is warranted. Some consumption in the first block represents nondiscretionary consumption which is subject to little (if any) repression.

Customers who use from 10 kgal to 20 kgal per month will face preliminary price changes ranging from 70% (at 11 kgal) to 110.6%. The consolidated factor midpoint in this usage block occurs at 13 kgal, with a preliminary expected price increase of 82.3%. Assuming a proportional increase in repression, we believe a repression adjustment of 11% (1,444 kgal) for monthly consumption in the second usage block is reasonable.

Customers who use greater than 20 kgal per month will face preliminary price changes ranging from 117% (at 21 kgal) to greater than 200%. The consolidated factor midpoint in this usage block occurs at 30 kgal, with a preliminary expected price increase of 158.4%. A proportional increase in repression results in an adjustment of approximately 20% (1,632 kgal) in this usage block.

This Commission has typically not applied repression adjustments to the general service class, and we have not made a repression adjustment to that class in this case. (See PSC-00-1528-PAA-WU. Although this order was protested and is now set for hearing, repression is not at issue.) First, this class is typically more heterogenous than the residential class. Therefore, without specific knowledge about the business makeup of the general service customers (i.e., carwashes vs. laundromats vs. convenience stores, etc.), it is not possible to reasonably predict what an appropriate repression adjustment might be. Furthermore, consumption in this class is often considered more nondiscretionary and necessary for business purposes. Therefore, rather than promote conservation, price increases may be passed on to the customers of the respective businesses. Finally, consumption in this class represents approximately 5% of overall utility

consumption, so any adjustment made to this class would not be material.

The effects of staff's recommended repression adjustments in each usage block result in an overall residential repression adjustment of 9%, or an anticipated reduction in consumption of 8,655 kgals. The resulting consumption to be used to calculate consumption charges is 97,397 kgals.

Based on the foregoing, we believe repression of consumption is likely to occur. The appropriate repression adjustment is a reduction in consumption of 8,655 kgal, and the resulting consumption to be used to calculate consumption charges is 97,397 kgal. In order to monitor the effects of this rate proceeding on consumption, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed (by usage block for residential customers) and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 19: What are the recommended monthly rates for service for this utility?

RECOMMENDATION: The recommended rates, as shown on Schedule No. 4, should be designed to produce revenues of $415,622, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO, BINFORD)

STAFF ANALYSIS: As discussed in Issue 16, the appropriate revenue requirement, excluding miscellaneous service charges of $1,694, is $415,622. As discussed in Issue 17, staff recommends that an inclining-block rate structure is appropriate for the residential class, while the general service class should continue with its traditional BFC/uniform gallonage charge rate structure. As discussed in Issue 18, staff recommends that the appropriate consumption to be used for rate setting is 97,397 kgals. Therefore, the resulting monthly rates for service are those shown on Schedule No. 4.

The permanent rates requested by the utility are designed to produce revenues of $485,481 for water service. The requested revenues represent an increase of $232,233, or 91.70%. Staff's recommended increase in revenue requirement is $168,624, or approximately 67.8%. The final rates approved for the utility should be designed to produce revenues of $415,622 (excluding miscellaneous service charge revenues).

Approximately 36% (or $151,483) of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 64% of the revenue requirement (or $264,139) represents revenues collected through the consumption charge based on the number of factored gallons.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates should

not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates and staff's recommended rates is shown on Schedule 4.

ISSUE 20: Should any portion of the interim increase granted be refunded?

RECOMMENDATION: No, the utility should not be required to refund any water revenues collected under interim rates. The revenue held subject to refund and the letter of credit, required by Order No. PSC-00-1891-PCO-WU guaranteeing those revenues, should be released. (BINFORD)

STAFF ANALYSIS: In Order No. PSC-00-1891-PCO-WU, issued October 16, 2000, the utility's proposed rates were suspended and interim water rates were approved subject to refund, pursuant to Sections 367.082, Florida Statutes. The interim revenues are shown below:

	Revenues	Increase	Percentage
Water	$ 349,827	$ 101,135	40.67%

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates was the historical twelve months ended December 31, 1999. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. We included pro forma plant since it was in service by October 2000, which is during the interim collection period. However, rate case expense was excluded because it was not an actual expense during the interim collection period.

Using the principles discussed above, staff has calculated the revenue requirement for the interim collection period to be $394,934. This results in an increase of $146,242 or 58.80%. This revenue level is more than the interim increase, which was granted in Order No. PSC-00-1891-PCO-WU.

Based on the above, staff recommends that the utility should not be required to refund any water revenues collected under

interim rates. Therefore, the revenue held subject to refund and the letter of credit, required by Order No. PSC-00-1891-PCO-WU guaranteeing those revenues, should be released.

OTHER ISSUES

ISSUE 21: Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to $5,000 per day for its apparent violation of Rule 25-30.116(5), Florida Administrative Code, for failing to obtain prior Commission approval before capitalizing interest on construction related to the utility's plant expansion loan?

RECOMMENDATION: No. A show cause proceeding should not be initiated. (BRUBAKER)

STAFF ANALYSIS: As discussed in Issue 4, the staff auditor discovered that, during 1997, the utility acquired a loan from its parent company for construction of its plant expansion. The utility capitalized the interest on the construction related to the plant expansion loan.

Rule 25-30.116(5), Florida Administrative Code, provides that no utility may charge or change its AFUDC rate without prior Commission approval. Staff believes that capitalizing the interest from this construction loan is tantamount to changing the AFUDC rate without prior Commission approval. In the utility's response to the audit report, it stated that the utility was unaware that it was required to obtain the Commission's authorization prior to capitalizing interest during construction.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to obtain prior Commission approval before capitalizing interest from the loan, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although the utility is in apparent violation of Rule 25-30.116(5), Florida Administrative Code, staff believes that there are factors present which mitigate the utility's apparent violation. Because staff is recommending that a prospective AFUDC rate be approved as addressed in Issue 10, the utility will no longer have an unapproved rate and thus will be in compliance with Rule 25-30.116, Florida Administrative Code. Further, the recommended disallowance of capitalized interest in itself is a penalty, in that the utility will be precluded from earning a return on this amount and will be required to expense the amount below the line.

Based on the foregoing, staff does not believe that the apparent violation of Rule 25-30.116(5), Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for failing to obtain prior Commission approval before capitalizing the interest associated with its plant expansion loan.

ISSUE 22: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order and the docket should be closed upon the utility's filing and staff's approval of revised tariff sheets. (BRUBAKER, BINFORD)

STAFF ANALYSIS: If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order and the docket should be closed upon the utility's filing and staff's approval of revised tariff sheets.

PLACID LAKES UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/1999

SCHEDULE NO. 1-A
DOCKET 000295-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$1,860,086	$0	$1,860,086	($58,249)	$1,801,837
2 LAND & LAND RIGHTS	$1,000	$0	$1,000	$0	$1,000
3 NON-USED & USEFUL COMPONENTS	$0	($95,752)	($95,752)	($31,432)	($127,184)
4 ACCUMULATED DEPRECIATION	($583,896)	$0	($583,896)	$29,738	($554,158)
5 CIAC	($1,010,604)	$0	($1,010,604)	$25,959	($984,645)
6 AMORTIZATION OF CIAC	$405,016	$0	$405,016	($15,731)	$389,285
7 WORKING CAPITAL ALLOWANCE	$0	$38,328	$38,328	($1,791)	$36,537
RATE BASE	$671,602	($57,424)	$614,178	($51,505)	$562,673

PLACID LAKES UTILITIES, INC. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/1999	SCHEDULE NO. 1-B DOCKET 000295-WU PAGE 1 OF 1
EXPLANATION	**WATER**
PLANT IN SERVICE	
1 To adjust to simple average balance	($24,781)
2 Adjustment for unauthorized capitalized interest booked	(45,333)
3 Proforma adj. for pumping equipment damaged by lightening	11,865
Total	($58,249)
NON-USED & USEFUL PLANT	
Adjustment due to staff's change in used and useful	($31,432)
ACCUMULATED DEPRECIATION	
1 To adjust to simple average balance	$26,178
2 Adjustment for unauthorized capitalized interest booked	3,857
3 Proforma adj. for pumping equipment damaged by lightening	(297)
Total	$29,738
CIAC	
To adjust to simple average balance	$25,959
ACCUM. AMORT. OF CIAC	
To adjust to simple average balance	($15,731)
WORKING CAPITAL	
Adjustment due to staff's adjustments to O&M expense	($1,791)

PLACID LAKES UTILITIES, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/1999

SCHEDULE NO. 3-A
DOCKET 000295-WU

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	**OPERATING REVENUES**	$268,587	$216,894	$485,481	($236,789)	$248,692	$168,624 67.80%	$417,316
	OPERATING EXPENSES:							
2	OPERATION & MAINTENANCE	$304,110	$2,515	$306,625	($14,329)	$292,296		$292,296
3	DEPRECIATION	26,631	(3,475)	23,156	(1,556)	21,600		21,600
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	37,586	10,380	47,966	(11,215)	36,751	7,588	44,339
6	INCOME TAXES	(37,714)	78,073	40,359	(40,359)	0	0	0
7	**TOTAL OPERATING EXPENSES**	$330,613	$87,493	$418,106	($67,459)	$350,647	$7,588	$358,235
8	**OPERATING INCOME**	($62,026)	$129,401	$67,375	($169,330)	($101,955)	$161,036	$59,081
9	**RATE BASE**	$671,602		$614,178		$562,673		$562,673
10	**RATE OF RETURN**	(9.24)%		10.97%		(18.12)%		10.50%

PLACID LAKES UTILITIES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/1999

SCHEDULE NO. 2
DOCKET 000295-WU

	DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
	PER UTILITY - YEAR END 1999							
1	LONG TERM DEBT	$0	$0	$0	$0	0.00%	10.50%	0.00%
2	SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	0	0	126,246	126,246	20.56%	7.00%	1.44%
4	COMMON EQUITY	(887,391)	0	1,375,323	487,932	79.44%	12.00%	9.53%
5	CUSTOMER DEPOSITS	0	0	0	0	0.00%	6.30%	0.00%
6	DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
7	DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
8	ADVANCES FROM ASSOC. COS.	1,707,915	0	(1,707,915)	0	0.00%	0.00%	0.00%
9	**TOTAL CAPITAL**	$820,524	$0	($206,346)	$614,178	100.00%		10.97%
	PER COMMISSION STAFF - AVERAGE 1999							
10	LONG TERM DEBT	$0	$732,714	($170,040)	$562,674	100.00%	10.50%	10.50%
11	SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12	PREFERRED STOCK	0	0	0	0	0.00%	7.00%	0.00%
13	COMMON EQUITY	(896,277)	896,277	0	0	0.00%	9.93%	0.00%
14	CUSTOMER DEPOSITS	0	0	0	0	0.00%	6.30%	0.00%
15	DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
16	DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
17	ADVANCES FROM ASSOC. COS.	1,628,991	(1,628,991)	0	0	0.00%	0.00%	0.00%
18	**TOTAL CAPITAL**	$732,714	$0	($170,040)	$562,674	100.00%		10.50%
						LOW	**HIGH**	
19				RETURN ON EQUITY		8.93%	10.93%	
20				OVERALL RATE OF RETURN		10.50%	10.50%	

PLACID LAKES UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/1999

SCHEDULE NO. 3-B
DOCKET 000295-WU
PAGE 1 OF 1

EXPLANATION	WATER
OPERATING REVENUES	
1 Remove requested final revenue increase	($232,233)
2 To adjust to simple average balance	(4,556)
Total	($236,789)
OPERATION & MAINTENANCE EXPENSE	
1 To reflect staff's miscellaneous adjustments	($821)
2 To reflect staff's adjustments to rate case expense	(17,476)
3 To reflect non-recurring items removed from rate case exp.	6,919
4 To reflect legal services removed from rate case expense.	1,452
5 To remove management fees and include in rate case expense.	(2,351)
6 To adjust purchase power for repression	(905)
7 To adjust chemicals for repression	(1,147)
Total	($14,329)
DEPRECIATION EXPENSE-NET	-
1 To adjust to simple average balance	$514
2 Adjustment for unauthorized capitalized interest booked	(1,543)
3 Proforma adj. for pumping equipment damaged by lightening	593
4 Adjustment due to non used&useful adjustment	(1,120)
Total	($1,556)
TAXES OTHER THAN INCOME	
1 Adjust RAFs on utility's requested revenue increase	($10,450)
2 Adjust RAFs to reflect test year simple average revenues	(205)
3 To remove utility's increase for prop/real estate discount	(535)
4 Adjust non used&useful adjustment prop./real estate tax	(239)
5 Adjust prop/real estate tax for additional plant investment	214
Total	($11,215)
INCOME TAXES	
To remove test year income tax expense	($40,359)

PLACID LAKES UTILITIES, INC.
WATER MONTHLY SERVICE RATES
TEST YEAR ENDED 12/31/1999

SCHEDULE NO. 4
DOCKET 000295-WU
PAGE 1 OF 1

	Rates As of 06/30/2000	Commission Approved Interim		Utility Requested Final		Staff Recomm. Final
Residential						
Base Facility Charge by Meter Size						
5/8" x 3/4"	$7.16	$10.11		$11.28		$8.31
3/4"	$7.16	$10.11		$16.92		$12.47
1"	$17.91	$25.27		$28.20		$20.78
1 1/2"	$35.80	$50.53		$56.40		$41.55
2"	$57.30	$80.86		$90.24		$66.48
3"	$114.72	$161.70		$180.48		$132.96
4"	$179.25	$252.65		$282.00		$207.75
6"	$358.04	$505.32		*		*
8"	$572.87	$808.52		*		*
10"	$823.50	$1,162.25		*		*
12"	$1,539.59	$2,172.89		*		*
Gallonage Charge						
per 1,000 Gals (kgal)	$1.14	$1.61	0-10 kgal	$2.42	0-10 kgal	$2.39
			10-40 kgal	$3.63	10-20 kgal	$3.59
			>40 kgal	$4.84	>20 kgal	$4.78
General Service						
Base Facility Charge by Meter Size						
5/8" x 3/4"	$7.16	$10.11		$11.28		$8.31
3/4"	$7.16	$10.11		$16.92		$12.47
1"	$17.91	$25.27		$28.20		$20.78
1 1/2 "	$35.80	$50.53		$56.40		$41.55
2"	$57.30	$80.86		$90.24		$66.48
3"	$114.72	$161.70		$180.48		$132.96
4"	$179.25	$252.65		$282.00		$207.75
6"	$358.04	$505.32		*		*
8"	$572.87	$808.52		*		*
10"	$823.50	$1,162.25		*		*
12"	$1,539.59	$2,172.89		*		*
Gallonage Charge per kgal	$1.14	$1.61		$2.68		$2.71

Typical Residential Bills

5/8" x 3/4" Meter Size				
3,000 Gallons	$10.58	$14.94	$18.54	$15.48
12,000 Gallons	$20.84	$29.43	$42.74	$27.43
22,000 Gallons	$32.24	$45.53	$79.04	$77.67
42,000 Gallons	$55.04	$77.73	$154.06	$173.27

*Utility did not request an increase and has no customers for these meter sizes; therefore, these rates have been discontinued.