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COMMISSION CLERK

DATE: October 24, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK  
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (MERCHANT, P. LEE, JOYCE)  
DIVISION OF LEGAL SERVICES (BRUBAKER)

*Handwritten signatures and initials: PSL, Nat, DM, JS, TS*

RE: DOCKET NO. 011621-WU - PETITION FOR LIMITED PROCEEDING TO  
IMPLEMENT AN INCREASE IN WATER RATES IN HIGHLANDS COUNTY,  
BY PLACID LAKES UTILITIES, INC.

AGENDA: 11/5/2002 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: THIS RECOMMENDATION SHOULD REPLACE THE  
ORIGINAL RECOMMENDATION FILED ON 7/25/02.  
ADDITIONAL LANGUAGE FROM THE ORIGINAL  
RECOMMENDATION IS UNDERLINED.

FILE NAME AND LOCATION: S:\PSC\ECR\WP\011621.RCM

CASE BACKGROUND

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

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COMMISSION CLERK

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

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

On March 7, 2002, staff held a customer meeting in Lake Placid, Florida. Fourteen customers attended, along with representatives of the utility. Of the fourteen customers that attended, five customers spoke on the quality of service and the proposed rate increase. In general, the customers were satisfied with the quality of service; however, many customers objected to an overall increase of rates. This case was originally filed for the August 6, 2002 Agenda Conference. At Agenda, the Office of Public Counsel (OPC) brought up several areas of concern and the Commission deferred the item to allow the parties to discuss the issues and possibly reach an agreement. The utility responded to OPC's concerns in a letter dated August 30, 2002, but the parties have been unable to reach an agreement. Therefore, staff is bringing this recommendation back to the Commission. Staff's recommendation has been updated to address several of OPC's concerns and the language added is underlined.

The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes. Staff's recommendation addresses an analysis of the requested additional costs, the revenue increase, and the rate increase.

Staff notes that we have scheduled a staff rule development workshop on November 20, 2002, to receive input from interested persons regarding the adoption of a limited proceeding rule.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Placid Lakes's request for a limited proceeding increase be approved?

**RECOMMENDATION:** Yes. However, several adjustments to the utility's filing are necessary, as detailed in staff's analysis. (MERCHANT, P. LEE)

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

**Generator**

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

**Line Loop Extension**

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

closed system. Staff reviewed three bids, and inspected the line route during its field investigation. The project has been permitted by DEP.

One concern that OPC expressed was that the line loop extension would lessen the requirements for line flushing and other line cleaning maintenance. As a result, OPC believed purchased power, chemicals and other Operation and Maintenance (O&M) expenses would be reduced. The utility responded that less flushing and less cost as a result of a single line loop does not reflect the actual facts and circumstances concerning the Placid Lakes system. The need to flush a line depends on many factors. If water sits in a long length of pipe for an extended period of time due to low usage, the water gets stagnant and no matter what the pressure in the line is, flushing is required. Further, the utility states that it is not the pressure but the usage of the water in the line that determines the level of flushing activity. The extension of the line loop to ensure compliance with DEP pressure regulations according to the utility will not affect the number of homes on the line and, therefore, will not save Placid Lakes time spent or expenses incurred for flushing lines for our current customers.

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

### **Meter Replacements**

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

application states that it is necessary to replace all current water meters. Also, the utility states that the meter replacement program will benefit its customers as customers billing accuracy can be ensured by the installation of wires on the new meter and implementation of a "touch read" system.

As part of our review of the utility's application, staff inquired as to why it was prudent for a utility to replace all of its meters, given the customer growth in the system for the past several years. Staff had concerns that a 100% replacement of relatively new meters was imprudent, especially when no supporting documentation was submitted showing specifically how many of those meters were actually defective. Upon staff's request, the utility submitted information to explain why it believed its meters were defective. The utility responded that older meters need to be replaced because of excessive build-up of lime, sulphur, and iron. Due to excessive mineral build-up, the utility has to re-read the dials on the meters. Screens are clogged with mineral scale build-up and the numbers on the meters are covered by iron deposits. Also, customer complaints have been received about low pressure due to mineral build-up. Also, in 1996, the utility implemented the use of a water treatment chemical to reduce mineral build-up which has helped keep the meters free of the build-up. Based on conversations with staff, the utility revised its request to replace all meters and instead requested that the Commission approve the replacement of all meters older than 10 years.

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

Rule 25-30.265, Florida Administrative Code (F.A.C.), states that each utility shall inspect, test and keep record of a representative sample of its meters in service at least once during

the intervals specified for each meter size. For a 5/8-inch meter, the maximum interval between tests is 10 years. This rule, however, does not specify what a representative sample is, nor does it require that all meters be tested within that period. Since the rule is silent about any requirements for specific attributes for a representative sample size, staff believes that the utility should establish and document the sample attributes that it believes are appropriate.

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

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

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

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

Pursuant to Rule 25-30.140, F.A.C., the guideline depreciable life for service meters is 20 years. Staff performed an informal analysis with several water utilities, both municipal and PSC-regulated. Based on staff's conversations with those utilities, meter replacement programs for 5/8 x 3/4" meters generally ranged

from 10 to 17 years. For meter sizes 2" and larger, the testing and replacement period is greater, but overall these larger meters represent a minority of total meters in service. Staff also reviewed several recent trade articles regarding meter replacement policies and those articles support the replacement time-frame of 10-17 years. Placid Lakes also submitted the warranty information supporting the meters that it intends to purchase and the warranty period for accuracy of the new meters is 10 years.

Staff does not believe that the utility has justified the replacement of 100% of its meters at one time. This is an extremely costly ordeal and should be done on an as-needed basis. We believe that a utility should be continually reviewing and testing its meters as required by Rule 25-30.265, F.A.C., and should be replacing those that are inaccurate or damaged. Based on the evidence submitted in this case, staff believes that Placid Lakes has supported that numerous meters are in need of replacement and that the implementation of a "touch read" system to facilitate meter reading is prudent. Staff believes that the utility should be allowed recovery in this limited proceeding to replace in-service meters that are 15 years and older. This results in the replacement of 843 meters out of a total number of meters of 1,410, or 60%. Staff also recommends that the utility be allowed recovery to install 407 remote units on non-replaced meters for the "touch-read" system.

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

During the discovery process, staff reviewed the utility's estimate of the replacement cost to retire all meters 15 years and older. The utility separated meters into three classes. Class 1 requires meter replacement only for 325 meters at \$110 per meter. This cost is made up of \$95 for parts and \$15 for labor. Class 2

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

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

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



retired) direct read meters is reasonable and we believe that cost should be allowed.

Staff notes that the utility did not make an adjustment in its filing for any meter retirements. Staff requested that the utility provide a calculation to retire the old meters that are being replaced. The utility's calculation is based on the premise that the meter box cost was double the cost of the meter. Based on staff's review of invoices discussed above, the meter box cost is relatively close to the cost of the meters. As such, staff took the total costs of meters recorded as of 1988 of \$49,670 and divided that amount by the 965 meters in service at that time, for an average cost of \$51 per installation. Staff assumes that the breakdown between meter, box and meter installation costs when booked were evenly spread between the original cost of installing the meter versus the meter box.

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

	<u>Number of Meters</u>	<u>Cost Per Meter</u>	<u>Total Cost</u>
<u>Additions</u>			
Class 1 replace meters	325	\$110	\$35,750
Class 2 replace meter	422	\$110	46,420
Class 3 replace meter & box	<u>96</u>	\$239	<u>22,944</u>
Total	843		\$105,114
Touch-read on existing meters	<u>407</u>	\$50	<u>20,350</u>
Total plant additions per staff	1250		\$125,464
Total Additions per Utility			<u>212,865</u>
Staff Adjustment to Rate Base			<u>(\$87,401)</u>
 <u>Retirements</u>			
Retirement-Meters	843	\$25	\$21,075

Retirement-Meter box	96	\$26	2,496
Total Retirement			<u>\$23,571</u>
<u>Depreciation Expense</u>			
Balance of meters @ 12/31/01	\$177,759		
Retirements per staff	(23,571)	5.00%	(\$1,179)
Net balance @ 12/31/2001 @ incremental rate	\$154,188	1.67%	2,570
New Addition to meters	\$125,464	6.67%	8,364
Staff Incremental Depr. Expense			\$9,756
Depreciation Expense Per Utility			<u>10,643</u>
Staff Recomm. Depr. Adjustment			<u>(\$887)</u>

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

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

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

Regarding reworking and re-installation of retired meters, Placid Lakes states that they are unable to rework meters due to built-in screens. Further, because of the problems with the screens, the utility is using positive displacement meters as replacements. As far as scrap value is concerned, the utility states that the current price of brass at the recycling center in

Placid Lakes is nineteen cents per pound. Each meter weighs 1 pound, thus the scrap metal value for the 1,000 meters will amount to \$190.

### **Master Flow Meter**

During the plant inspection, staff noticed that the master flow meter for the water treatment plant had signs of possible failure, and its replacement would be needed soon. DEP requires the utility to have an operating master flow meter. Subsequent to our field inspection, the utility notified staff that its master flow meter had failed. The utility submitted a cost estimate to staff of \$12,761, and requested that recovery of the flow meter be included in its filing. Staff has reviewed this request and we believe that the cost is prudent and the master flow meter should be replaced. The new flow meter should be recorded in plant account number 307 and the annual depreciation should be \$425. For book purposes, the utility should debit accumulated depreciation and credit plant for \$4,624 respectively, to reflect the retirement of the old flow meter. A corresponding adjustment of \$154 should be made to remove depreciation expense on the retired flow meter.

### **2000 & 2001 Miscellaneous Plant Additions**

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

The utility recently received rate relief in its last rate case in March 2001. In that proceeding, the Commission addressed the total aspects of this utility's revenue requirement and rates for the year ended December 31, 1999. In addition, several pro forma adjustments were made to reflect known and measurable costs outside of the test year. Limited proceedings generally address a

specific or significant change that would adversely affect the normal operating income of the utility. Limited proceedings are not designed, nor should they be, to consider growth-related plant items because the number of items required to be addressed exceeds the designed scope of limited proceedings. Staff notes that if we took the utility's change in rate base from the amount approved in 1999 and updated it to 2001 amounts, this would result in a net decrease to the utility's rate base in this filing. Based on the above, staff recommends that the total 2000 and 2001 miscellaneous plant additions, depreciation expense, and accumulated depreciation adjustments should be removed from the utility's filing.

### **Property Tax**

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

### **Conclusion**

Based on the above, staff believes that the utility has demonstrated that a limited proceeding increase is reasonable and should be approved as adjusted by staff. Staff believes that the plant improvements for the new generator, the line loop extension, the meter replacements as adjusted, and the master flow meter are non-growth related additions and appear reasonable. The majority of the 2000 and 2001 plant additions are growth related and staff does not believe these are appropriate to include in this proceeding. In the subsequent issues, staff has addressed other related adjustments requested in this application and the revenue increase and rates recommended.

**ISSUE 2:** What is the appropriate cost of capital for this limited proceeding and should any provision for income tax expense be allowed?

**RECOMMENDATION:** Consistent with the utility's last rate case, the appropriate weighted average cost of capital should be 10.50%. Since the utility has negative equity and does not incur income tax expense, no income tax provision should be included in the utility's revenue requirement calculation. (MERCHANT)

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

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

Section 367.0822, Florida Statutes states that:

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

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

### **Income Taxes**

In its application, the utility escalated its revenue increase for federal and state income taxes. This resulted in an increase

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to the utility's requested revenue calculation of \$25,523. Given the utility's large negative equity balance, the tax impact an equity infusion as proposed in this limited proceeding would be negated by net operating loss carry-forwards. Accordingly, staff recommends that no income tax expense should be allowed in this proceeding.

**ISSUE 3:** What is the appropriate amount of rate case expense for this limited proceeding?

**RECOMMENDATION:** The appropriate amount of rate case expense for this docket is \$44,400. This expense is to be recovered over four years for an annual expense of \$11,100. This results in a decrease to the utility's filing of \$1,400 in annual amortization. (MERCHANT)

**STAFF ANALYSIS:** The utility included a \$50,000 estimate in its application for current rate case expense. As part of our 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 rate case expense through completion of the Proposed Agency Action (PAA) process is \$45,080. The components of the estimated rate case expense are as follows:

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

Section 367.081(7), Florida Statutes states that:

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

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 Fees**

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

Staff has reviewed the actual charges incurred for the accounting costs. In this proceeding, Mr. Guastella charged the utility for 8.5 hours at a rate of \$245 an hour, or \$2,083, and Mr. White charged the utility for 108.50 hours at \$165 an hour, or \$17,903. Staff believes that Mr. Guastella's hourly rate is high compared to other accounting 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. The Commission has previously reduced Mr. Guastella's hourly rate. (See Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU; and Order No. PSC-01-0327-PAA-WU). Staff believes that an hourly rate of \$165 equal to Mr. White's rate should be allowed. Based on the 8.5 hours charged by Mr. Guastella, this results in a decrease to accounting fees of \$680.

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

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

**Legal Fees**

In its application, the utility requested legal rate case



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

The utility submitted an estimated additional cost of \$2,500 for 12 hours in legal fees to complete the limited proceeding through PAA. Staff believes that the utility's request is reasonable for legal fees to cover the review of the recommendation, attendance at agenda, and review of the PAA order, if not protested.

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

Summary

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

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

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

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**ISSUE 4:** What is the appropriate revenue increase for this limited proceeding?

**RECOMMENDATION:** The appropriate revenue increase should be \$54,537 or an increase of 11.88%. (MERCHANT)

**STAFF ANALYSIS:** Placid Lakes requested final rates designed to generate additional annual revenues of \$105,170 for the water system. These revenues exceed annualized revenues for the 12 months ended August 31, 2001 by 22.90%. Based on staff's adjustments, the appropriate revenue increase should be \$54,537, or 11.88%, as shown on attached Schedule 1.

**ISSUE 5:** What are the appropriate water rates for this limited proceeding?

**RECOMMENDATION:** The recommended rates should be designed to allow the utility the opportunity to generate additional annual operating revenues of \$54,537, which represents a rate increase of 11.88%, as reflected on attached Schedule 2. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates approved by the Commission, pursuant to Rule 25-22.0407(10), F.A.C. 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 should 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 the notice. (MERCHANT)

**STAFF ANALYSIS:** Staff recommends that rates should be designed to allow the utility the opportunity to generate additional annual operating revenues of \$54,537, which represents a rate increase of 11.88%. This 11.88% increase in rates should be applied as an across the board increase to present service rates.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates approved by the Commission, pursuant to Rule 25-22.0407(10), F.A.C. to reflect the appropriate rates, pursuant to Rule 25-22.0407(10), F.A.C. 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 should 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 the notice.

A comparison of the utility's present rates, Placid Lakes' requested rates, and staff's recommended rates are shown on Schedule 2.

**ISSUE 6:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of amortized rate case expense as required by Section 367.0816, Florida Statutes?

**RECOMMENDATION:** The water rates should be reduced as shown on Schedule 2, to remove rate case expense grossed-up for regulatory assessment fees and 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, Florida Statutes. 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.  
(MERCHANT)

**STAFF ANALYSIS:** Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The reduction in revenues will result in the rates recommended by staff on Schedule 2.

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

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

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**ISSUE 7:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, and this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. (BRUBAKER)

**STAFF ANALYSIS:** If no person, whose substantial interests are affected by the proposed agency action files a timely request for a Section 120.57, Florida Statutes, hearing within the twenty-one day protest period, no further action will be required and this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

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

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