

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

MAY 6, 2003

RE: Docket No. 020407-WS - Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

ISSUE 1: Is the quality of service provided by Cypress Lakes satisfactory?
RECOMMENDATION: Yes. The quality of service should be considered satisfactory.

APPROVED

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

[Handwritten signatures in the majority column]

REMARKS/DISSENTING COMMENTS:

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ISSUE 2: Should adjustments be made to organization and franchise costs?

RECOMMENDATION: Yes. Cypress Lakes' organization and franchise costs should be reduced by \$80,551 for water and \$28,321 for wastewater, respectively, to reclassify them as below the line acquisition costs. Corresponding adjustments are also necessary to decrease accumulated depreciation and depreciation expense as follows:

	<u>Water</u>	<u>Wastewater</u>
Organization Costs	(\$80,551)	(\$10,115)
Franchise Fees	\$0	(\$18,206)
Accumulated Depreciation	(\$4,863)	(\$1,714)
Depreciation Expense	(\$2,030)	(\$795)
Land	\$0	\$2,610

APPROVED

ISSUE 3: Should adjustments be made to utility plant in service to remove unapproved Allowance for Funds Used During Construction (AFUDC) accruals, unsupported plant, and plant never placed in service?

RECOMMENDATION: Yes. Average water and wastewater utility plant in service should be reduced by \$6,413 and \$29,586, respectively. Average accumulated depreciation should be reduced by \$724 and \$595, respectively; and depreciation expense should be reduced by \$392 and \$1,506, respectively.

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ISSUE 4: Should adjustments be made to plant for common rate base allocations from UIF and WSC?

RECOMMENDATION: Yes. Cypress Lakes' common plant allocation from UIF should be decreased by \$17,187 for water and increased by \$16,539 for wastewater. Corresponding adjustments should be made to reduce accumulated depreciation by \$3,978 for water and increase by \$3,298 for wastewater. Depreciation expense should be reduced by \$256 and \$247 for water and wastewater, respectively. Also, adjustments should be made to increase WSC's rate base allocation by \$9,481 and \$10,018 for water and wastewater, respectively.

APPROVED

ISSUE 5: What is the appropriate used and useful percentage for the water treatment plant?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful.

APPROVED

ISSUE 6: What is the level of unaccounted for water, is any portion excessive, and, if so, should any adjustments be made?

RECOMMENDATION: The test year unaccounted for water level is 11.2⁷²%, of which 1.72% is excessive. No adjustment is necessary to the used and useful calculation because the plant is 100% used and useful before consideration of growth. However, purchased power and chemical expenses should be reduced by \$124 and \$47, respectively.

APPROVED

with noted correction.

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ISSUE 7: What is the used and useful percentage for the utility's wastewater treatment plant?

RECOMMENDATION: The wastewater treatment plant should be considered 71.66% used and useful. This results in a net non-used and useful plant balance of \$200,004 and a reduction to the utility's rate base of \$68,411. A corresponding adjustment should also be made to reduce depreciation expense by \$1,490 for non-used and useful plant.

APPROVED

ISSUE 8: What are the used and useful percentages for the utility's wastewater collection and water distribution systems?

RECOMMENDATION: The wastewater collection and water distribution systems should be considered 100% used and useful.

APPROVED

ISSUE 9: Should adjustments be made to the contributions in aid of construction (CIAC) and accumulated amortization of CIAC accounts?

RECOMMENDATION: Yes. Water CIAC balances should be increased by \$18,100 related to unrecorded 1998-2000 additions to water CIAC. Further, accumulated amortization of CIAC should be increased by \$3,364 and \$2,604 for water and wastewater, respectively, to reflect the proper accruals and amortization rates. Corresponding adjustments should be made to reduce water and wastewater CIAC amortization expense by \$1,153 and \$2,315, respectively. Additionally, the utility should be required to calculate its accumulated amortization of CIAC accruals by specific account as required by Rule 25-30.140(8), F.A.C.

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ISSUE 10: What is the appropriate working capital allowance?

RECOMMENDATION: The appropriate amount of working capital is \$10,701 for water and \$17,915 for wastewater based on the formula method.

APPROVED

ISSUE 11: What is the appropriate rate base?

RECOMMENDATION: The appropriate water rate base for the test year ending December 31, 2001 is \$730,290. The appropriate wastewater rate base for the period ending December 31, 2001 is \$897,212.

APPROVED

ISSUE 12: Are any adjustments necessary to CLU's capital structure and what is the appropriate weighted cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year ending December 31, 2001?

RECOMMENDATION: Yes. Adjustments should be made to use the correct debt rates and to include Cypress Lakes' balance of accumulated deferred income taxes at a zero cost rate. The resulting overall cost of capital should be 9.23%, with a range of 8.78% to 9.68%. The return on equity (ROE) should be 10.93%, with a range of 9.93% to 11.93%.

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ISSUE 13: Should an AFUDC rate be approved, and if so, what is the appropriate annual rate, monthly discounted rate, and the effective date for Cypress Lakes?

RECOMMENDATION: Yes. Since the utility does not currently have an authorized AFUDC rate, the Commission, on its own motion, should establish such a rate. The utility should be authorized to implement an AFUDC rate of 9.23%, on an annual basis, with a monthly discounted rate of 0.768680%. These charges should be effective for projects as of January 1, 2002.

APPROVED

ISSUE 14: Should adjustments be made to operation and maintenance (O&M) expense to remove incorrect beginning and ending year accruals, unsupported expense additions, and improperly recorded expenses?

RECOMMENDATION: Yes. O&M expenses should be reduced by a total of \$1,029 for water and \$1,922 for wastewater.

APPROVED

ISSUE 15: Should an adjustment be made to the O&M expense allocation from WSC?

RECOMMENDATION: Yes. O&M expenses should be reduced by \$1,426 for water and \$1,381 for wastewater.

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ISSUE 16: Should adjustments be made to salaries and pensions and benefit expense to include the proper level of allocated expenses?

RECOMMENDATION: Yes. The utility should reduce water and wastewater salary-related expenses as follows:

	<u>Water</u>	<u>Wastewater</u>
Salary Expense	(\$3,478)	(\$3,368)
Pension & Benefits	(\$11,699)	(\$11,328)
Payroll Taxes	(\$4,008)	(\$3,881)

APPROVED

ISSUE 17: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is \$56,943. This expense is to be recovered over four years for an annual expense of \$14,236. Since the utility erroneously amortized its rate case expense over 8 instead of 4 years, staff recommends that the test year amortization be increased by \$3,312 and \$3,205, for water and wastewater respectively.

APPROVED

ISSUE 18: What is the test year water and wastewater operating income before any revenue increase?

RECOMMENDATION: Based on the adjustments discussed in previous issues, staff recommends that the test year water operating income before any provision for increased revenues should be (\$5,844). The test year wastewater operating income before any provision for increased revenues should be \$35,464.

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ISSUE 19: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved.

	<u>Test Year</u> <u>Revenues</u>	<u>\$</u> <u>Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>%</u> <u>Increase</u>
Water	\$114,551	\$122,955	\$237,506	107.34%
Wastewater	\$234,778	\$79,463	\$314,241	33.85%

APPROVED

ISSUE 20: Is a continuation of the utility's current inclining-block rate structure for its residential water system customers appropriate in this case?

RECOMMENDATION: Yes. A continuation of the utility's current inclining-block rate structure for its residential water system customers is appropriate. Staff recommends no change to the usage blocks or usage block rate factors. No conservation adjustment is recommended.

APPROVED

ISSUE 21: What is the appropriate general service gallonage charge?

RECOMMENDATION: The general service gallonage charge should be the uniform gallonage charge calculated as if that charge were applicable to all customers.

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ISSUE 22: Are adjustments to reflect repression of residential consumption appropriate in this case, and, if so, what are the appropriate adjustments?

RECOMMENDATION: Yes. Repression adjustments of 9,196.3 kgal to residential water consumption and 7,357.0 kgal to residential wastewater consumption are appropriate. In order to monitor the effects of the recommended revenue changes, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed 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.

APPROVED

ISSUE 23: What are the appropriate water and wastewater rates?

RECOMMENDATION: The appropriate monthly rates are shown on Schedules 4-A and 4-B of staff's April 24, 2003 memorandum. Staff's recommended rates are designed to produce water and wastewater revenues of \$234,677 and \$314,241, respectively, 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 after the notice is 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.

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ISSUE 24: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 9.36% of water and 7.03% of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

APPROVED

ISSUE 25: Should the utility be required to file a tariff for reuse service, and if so, what is the appropriate reuse rate?

RECOMMENDATION: Yes. The utility should be required to file a tariff for reuse service. The appropriate reuse rate is a rate of \$0, for the Cypress Lakes Golf Course (golf course). The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. 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), Florida Administrative Code.

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ISSUE 26: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The rates should be reduced as shown on Schedule 4 of staff's memorandum to remove \$7,576 for water and \$7,331 for wastewater rate case expense, grossed up for regulatory assessment fees, which are being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

APPROVED

ISSUE 27: Should the utility be required to show cause, in writing within 21 days, why it should not be fined \$3,000 for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order Nos. PSC-00-1528-PAA-WU, issued August 23, 2000, and PSC-00-2388-AS-WU, issued December 31, 2000, for its failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)?

RECOMMENDATION: Yes. The utility should be required to show cause, in writing within 21 days, why it should not be fined \$3,000 for its apparent violation of Rule 25-30.115, Florida Administrative Code, for its failure to maintain its books and records in conformance with the NARUC USOA. The order to show cause should incorporate the conditions stated in the analysis portion of staff's memorandum.

MODIFIED

The utility was directed to submit a plan for bringing the books and records into compliance.

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ISSUE 28: Should this docket be closed?

RECOMMENDATION: No. If no person whose substantial interests are affected by the PAA issues files a protest within 21 days of the issuance of the order, a consummating order will be issued. This docket should remain open pending completion of these matters: staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, the refund has been completed and verified by staff, and the disposition of the show cause recommendation in Issue 27. Once the tariff and refund actions are complete, the corporate undertaking may be released. When the PAA issues are final, the tariff and notice actions are complete, and the show cause has been resolved, this docket may be closed administratively.

APPROVED