

VOTE SHEET

February 13, 2007

Docket No. 060257-WS – Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

Issue 1: Is the quality of service provided by Cypress Lakes Utilities, Inc. considered satisfactory?

Recommendation: Cypress Lakes' overall quality of service should be considered marginally satisfactory.

APPROVED

Company is required to submit a report to the Commission within 9 months from the date of consummating order with copies to OPC and Cypress Lakes Homeowners Association.

Issue 2: Should the rate base adjustments to which the utility agrees be made?

Recommendation: Yes. Based on audit adjustments which the utility agrees with, water plant in service should be reduced by \$26,843, and wastewater plant in service should be increased by \$217,552. Associated water accumulated depreciation should be decreased by \$8,213, and wastewater accumulated depreciation should be increased by \$53,726.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Katrina J. McMurrin
Jim E. ...
...

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

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Issue 3: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Cypress Lakes?

Recommendation: The appropriate WSC net rate base allocation for Cypress Lakes is \$7,597 for water and \$6,918 for wastewater. This represents an increase of \$1,436 and \$1,177 for water and wastewater, respectively. WSC depreciation expense should also be increased by \$70 and \$64, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Cypress Lakes is \$11,089 for water and \$10,364 for wastewater. This represents water plant and accumulated depreciation decreases of \$17,841 and \$5,181, respectively, and wastewater plant and accumulated depreciation increases of \$14,637 and \$4,274, respectively. In addition, depreciation expense should be decreased by \$914 for water and increased by \$469 for wastewater.

APPROVED

Issue 4: Should other rate base adjustments be made in calculating final rates?

Recommendation: Yes. Water pro forma plant should be reduced by \$4,343, and wastewater pro forma plant should be reduced by \$8,696. Water and wastewater accumulated depreciation and depreciation expense should be reduced by \$203 and \$483, respectively.

APPROVED

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

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

APPROVED

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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 ^{13.95}~~12.62~~%, of which ^{3.95}~~2.62~~% is excessive. No adjustment is necessary to the U&U calculation because the plant is 100% used and useful before consideration of growth. However, purchased power and chemical expenses should be reduced by \$287 and \$106, respectively, for a total reduction of \$393.

modified as noted.

MODIFIED

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

Recommendation: Overall, the wastewater treatment plant should be considered 95.71% U&U.

APPROVED

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

Recommendation: With the exception of a portion of Account 354; the wastewater collection system and the water distribution systems should be considered 100% U&U. A portion of plant in Account 354 should be considered 95.71% U&U.

As a result of the used and useful adjustments discussed in Issue 7 and this issue, net rate base should be reduced by \$25,755. Corresponding adjustments should also be made to reduce depreciation expense by \$1,870 and property taxes by \$217.

APPROVED

Issue 9: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$18,402 for water and \$33,782 for wastewater based on the formula method.

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Issue 10: What is the appropriate rate base?

Recommendation: The appropriate water rate base for the test year ending December 31, 2005, is \$733,072. The appropriate wastewater rate base of the period ending December 31, 2005, is \$1,249,100.

APPROVED

Issue 11: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.45% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

APPROVED

Issue 12: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005 is 8.40%.

APPROVED

Issue 13: What adjustments, if any, should be made to the utility's test year revenue?

Recommendation: Water revenues should be increased by \$5,246 and wastewater revenues should be increased by \$2,582.

MODIFIED

modified to include miscellaneous service charges of \$1,500 for water and \$2,200 for wastewater.

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Issue 14: Should audit net operating income adjustments be made?

Recommendation: Yes. Water and wastewater O&M expense should be reduced by \$3,464 and \$6,531, respectively. Additionally water depreciation expense should be reduced by \$3,365, and wastewater depreciation expense should be increased by \$15,190.

APPROVED

Issue 15: What is the appropriate amount of allocated WSC and UIF expenses for Cypress Lakes?

Recommendation: Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Cypress Lakes are \$42,890 and \$1,932, respectively. As such, water O&M expenses and taxes other than income should be decreased by \$1,158 and \$88, respectively, and wastewater O&M expenses and taxes other than income should be decreased by \$1,055 and \$80, respectively. Further, the appropriate UIF O&M expenses for Cypress Lakes are \$2,003 for water and \$1,824 for wastewater. As such, water and wastewater O&M expense should be increased by \$9 and \$8, respectively.

APPROVED

Issue 16: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Cypress Lakes' salaries and wages should be decreased by \$10,349 for water and \$9,531 for wastewater. Accordingly, pensions and benefits should be reduced by \$873 and \$790 for water and wastewater, respectively, and payroll taxes should be reduced by \$662 and \$607 for water and wastewater, respectively.

APPROVED

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

Recommendation: As a result of an audit finding, \$2,379 and \$2,311 of overstated rate case expense for the prior rate case for water and wastewater, respectively, should be removed.

The appropriate total rate case expense for the current docket is \$84,859. This expense should be recovered over four years for an annual expense of \$21,215, or \$12,715 less than requested. The allocated portion of the annual expense to water and wastewater is \$11,104 and \$10,111, respectively. Rate case expense should be reduced by a total of \$16,273 (\$3,558 to correct inclusion of prior rate case expense + \$12,715 to adjust current rate case expense.)

APPROVED

Issue 18: Was rainfall during the 2005 test year abnormally high, and, therefore, result in understated test year consumption?

Recommendation: No. Rainfall during the 2005 test year was not abnormally high and did not result in understated test year consumption.

APPROVED

Issue 19: What is the test year operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is \$34,989 and \$18,284 for water and wastewater, respectively.

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Issue 20: What is the appropriate pre-repression revenue requirements for water and wastewater?

Recommendation: The following pre-repression revenue requirement should be approved:

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$253,603	\$44,585	\$298,188	17.58%
Wastewater	\$362,819	\$145,367	\$508,186	40.07%

APPROVED

Issue 21: What are the appropriate rate structures for the utility's various customer classes?

Recommendation: The appropriate rate structure for the water system's residential class is a continuation of its three-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The appropriate rate structure for the water system's non-residential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 30%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The current residential wastewater monthly gallonage cap should be lowered to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

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Issue 22: Are repression adjustments appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, repression adjustments are appropriate for this utility. For the water system, test year kgals sold should be reduced by 828 kgals, purchased power expense should be reduced by \$165, chemicals expense should be reduced by \$61, and regulatory assessment fees (RAFs) should be reduced by \$10. The final post-repression revenue requirement for the water system, excluding miscellaneous revenues of \$2,017, should be \$296,198. For the wastewater system, test year kgals sold should be reduced by 737 kgals, purchased power expense should be reduced by \$875, chemicals expense should be reduced by \$125, sludge removal expense should be reduced by \$974, and RAFs should be reduced by \$89. The final post-repression revenue requirement for the wastewater system, excluding miscellaneous revenues of \$2,898, should be \$503,226.

In order to monitor the effect of the rate changes, the utility should be ordered to file quarterly reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

APPROVED

Issue 23: What are the appropriate water and wastewater rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A of staff's February 1, 2007, memorandum, and the appropriate wastewater monthly rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$296,198, and the recommended wastewater rates produce revenues of \$503,226. The utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. 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), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

APPROVED

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Issue 24: Should the utility be authorized to revise its water and wastewater miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its water and wastewater miscellaneous service charges. The appropriate charges are reflected in the analysis portion of staff's February 1, 2007, memorandum. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

APPROVED

Issue 24A

Issue 25: 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. Using these principles, staff recommends that no refund of water or wastewater revenues is required.

APPROVED

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, F.S.?

Recommendation: The rates should be reduced as shown on Schedule No. 4 of staff's February 1, 2007, memorandum to remove \$11,627 for water and \$10,587 for wastewater rate case expense, grossed up for regulatory assessment fees, which is 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, F.S. 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

APPROVED

Issue 24A was added as stated at the conference to address service liability issue. The Commission accepted DPC's calculations as to \$1,500 for water and \$1,500 for wastewater.

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Issue 27: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Order Nos. PSC-04-0358-FOF-WS and PSC-04-1275-AS-WS, to adjust its books to reflect the adjustments to all the applicable primary accounts required by these Orders?

Recommendation: Yes. Cypress Lakes Utilities, Inc. should be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$3,000 for its apparent failure to timely comply with the requirements of Order Nos. PSC-04-0358-FOF-WS and PSC-04-1275-AS-WS. The order to show cause should incorporate the conditions stated in the analysis portion of staff's February 1, 2007, memorandum.

APPROVED

Issue 28: Should the utility be required to provide proof that it has adjusted its books for all Commission-approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Cypress Lakes should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

APPROVED

Issue 29: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the disposition of the show cause recommendation in Issue 27. When the PAA issues are final, the tariff and notices actions are complete, and the show cause has been resolved, this docket may be closed administratively.

APPROVED