

VOTE SHEET

March 13, 2007

Docket No. 060260-WS – Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc. (Deferred from February 13, 2007, conference; revised recommendation filed.)

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

Recommendation: Yes. The utility's overall quality of service is satisfactory.

APPROVED

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

Recommendation: Yes. Based on audit adjustments which the utility agrees with, plant should be reduced by \$14,150 for water and \$3,093 for wastewater. In addition, accumulated depreciation should be increased by \$4,555 for water and \$4,424 for wastewater.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures of Katrina J. McMurrin, Lynn Edg, and another commissioner under the MAJORITY column.

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REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER - DATE

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

Recommendation: The appropriate WSC net rate base allocation for Lake Placid is \$824 for water and \$1,591 for wastewater. This represents an increase of \$197 and \$308 for water and wastewater, respectively. WSC depreciation expense should also be increased by \$12 and \$16, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Lake Placid is \$4,781 for water and \$4,837 for wastewater. This represents water plant and accumulated depreciation decreases of \$12,591 and \$7,350, respectively, and wastewater plant and accumulated depreciation increases of \$12,582 and \$7,745, respectively. In addition, depreciation expense should be decreased by \$764 for water and increased by \$1,656 for wastewater.

APPROVED

Issue 4: Should other rate base adjustments be made?

Recommendation: Yes. Pro forma plant should be reduced by \$22,424 for water and \$1,343 for wastewater. Corresponding adjustments should be made to increase accumulated depreciation by \$17,036 for water, decrease accumulated depreciation by \$30 for wastewater and decrease depreciation expense by \$1,083 and \$30 for water and wastewater, respectively. Accumulated Amortization of Acquisition should be decreased by \$9,204 for water. Historical plant should be increased by \$17,900 for wastewater.

APPROVED

Issue 5: What is the used and useful percentage for the water treatment plant, the wastewater treatment plant, the water distribution system and the wastewater collection system?

Recommendation: Lake Placid's water treatment plant should be considered 100% used and useful. The wastewater treatment plant should be considered 30.46% used and useful, and the water distribution system and wastewater collection system, with the exception of Account 354, should be considered 100% used and useful as reflected in Attachment A of staff's March 1, 2007, memorandum. As a result of the above adjustments, net wastewater rate base should be reduced by \$94,585. Corresponding adjustments should also be made to reduce wastewater depreciation expense by \$8,206 and property taxes by \$589. An adjustment should be made to reduce O&M expense by \$681 for excessive unaccounted for water.

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Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$3,181 for water and \$7,952 for wastewater based on the formula method.

APPROVED

Issue 7: What is the appropriate water and wastewater rate base?

Recommendation: The appropriate water rate base for the test year ending December 31, 2005, is \$160,656. The appropriate wastewater rate base for the period ending December 31, 2005, is \$104,686.

APPROVED

Issue 8: 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 9: 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 7.50%.

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Issue 10: What adjustments, if any, should be made to the utility's test year revenue?

Recommendation: Water revenues should be increased by \$1,809 and wastewater revenues should be increased by \$1,631.

APPROVED

Issue 11: Should audit net operating income adjustments to which the utility agrees be made?

Recommendation: Yes. Water O&M expense should be reduced by \$2,602. Taxes Other Than Income should be increased by \$468 and \$2,064 for water and wastewater, respectively. Additionally water depreciation expense should be increased by \$957, and wastewater depreciation expense should be increased by \$762.

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Issue 12: What is the appropriate amount of allocated WSC and UIF expenses for Lake Placid?

Recommendation: The appropriate WSC O&M expenses and taxes other than income for Lake Placid are \$2,825 and \$3,724, respectively. As such, water and wastewater O&M expenses should be increased by \$62 and \$81, respectively, and water and wastewater taxes other than income should be decreased by \$4 and \$6, respectively. Further, the appropriate UIF O&M expenses for Lake Placid are \$1,913 for water and \$2,522 for wastewater. As such, water and wastewater O&M expense should be increased by \$178 and \$235, respectively.

APPROVED

Issue 13: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Lake Placid's salaries and wages should be decreased by \$705 for water and \$749 for wastewater. Accordingly, pensions and benefits should be reduced by \$48 for water and \$52 for wastewater, respectively, and payroll taxes should be reduced by \$78 and \$96 for water and wastewater, respectively.

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Issue 14: Should additional adjustments be made to Taxes Other Than Income?

Recommendation: Yes. Taxes Other Than Income should be increased by \$931 and \$1,451 for water and wastewater, respectively, to reflect the appropriate amount of test year regulatory assessment fees (RAFs).

APPROVED

Issue 15: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$31,073 for water and \$39,547 for wastewater. This expense should be recovered over four years for an annual expense of \$7,768 for water and \$9,887 for wastewater. Thus annual rate case expense should be reduced by \$6,745 for water and \$8,415 for wastewater.

APPROVED

Issue 16: What is the test year operating income?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is \$6,469 and (\$3,219) for water and wastewater, respectively.

APPROVED

Issue 17: What are the appropriate revenue requirements for water and wastewater?

Recommendation: The following revenue requirement should be approved.

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$47,204	\$9,375	\$56,579	19.86%
Wastewater	\$72,043	\$18,591	\$90,634	25.81%

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Issue 18: What are the appropriate rate structures for the water and wastewater systems?

Recommendation: The appropriate rate structure for the water system is a continuation of the current base facility charge (BFC)/uniform gallonage charge rate structure. The residential wastewater-only flat rate structure should be discontinued and replaced with a bulk wastewater rate based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80% of the number of equivalent residential connections actually connected to the system, while the gallonage charge should be set at 80% of the general service gallonage charge. The traditional BFC/gallonage charge rate structure should be continued for the remaining wastewater customers. The BFC cost recovery should be set at 54.6% for the water system and 50% for the wastewater system. The multi-residential gallonage charge rate should be set at an amount equal to the general service gallonage charge rate.

APPROVED

Issue 19: What are the appropriate rates for monthly service for the water and wastewater systems?

Recommendation: The appropriate water and wastewater rates are shown in Schedule Nos. 4-A and 4-B of staff's March 1, 2007, memorandum.

APPROVED

Issue 20: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's March 1, 2007, memorandum to remove rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in water 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

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Issue 21: Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected in the analysis portion of staff's March 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 22: 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, Lake Placid should provide proof, within 90 days of the issuance of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

APPROVED

Issue 23: 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. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively.

APPROVED