

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** December 4, 2008

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Billingslea, Bulecza-Banks, Fletcher, Livingston, Walden) <sup>VB</sup> <sup>CRBA</sup> <sup>BS</sup> <sup>107</sup>  
Office of the General Counsel (Young) <sup>10/11/08</sup> <sup>SB</sup>

**RE:** Docket No. 080353-WU – Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

**AGENDA:** 12/16/08 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** McMurrian

**CRITICAL DATES:** 60-Day Suspension Date Waived Through 12/16/08.

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\080353.RCM.DOC

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COMMISSION CLERK

### Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,959 customers in the Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District as a critical use area. The Utility's water rates were last established in its 2001 rate proceeding.<sup>1</sup> Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2007 annual report, the Utility reported operating revenues of \$534,068 and a net operating loss of \$13,295.

<sup>1</sup> See Order No. PSC-01-0327-PA, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc. Consummating Order No. PSC-01-0519-CO-WU, issued March 6, 2001 makes Order PSC-01-0327-PAA-WU effective and final, thereby closing the docket.

11/18/08 DEC -4 8  
FPSC-COMMISSION CLERK

On October 14, 2008, Placid Lakes filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). As of the filing of this recommendation, those deficiencies remain outstanding. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2007.

Placid Lakes requested interim rates designed to generate annual water revenues of \$643,135, an increase of \$101,903 or 18.83 percent. The Utility requested final rates designed to generate annual water revenues of \$705,582, an increase of \$169,182 or 31.54 percent.

The sixty-day statutory deadline for the Commission to suspend Placid Lakes' requested final rates is December 14, 2008. However, by letter dated November 13, 2008, the Utility waived the statutory time frame through December 16, 2008. This recommendation addresses the suspension of Placid Lakes' final rates and staff's recommended interim rate increase. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

**Discussion of Issues**

**Issue 1:** Should the Utility's proposed water rates be suspended?

**Recommendation:** Yes. Placid Lakes' proposed water rates should be suspended. (Billingslea, Fletcher)

**Staff Analysis:** Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) the Commission's PAA action is protested by a party other than the Utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff recommends further investigation of this information, including on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends suspension of the Utility's proposed rate increase.

**Issue 2:** Should an interim revenue increase be approved?

**Recommendation:** Yes. On an interim basis, the Utility should be authorized to collect annual water revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$541,232	\$51,031	\$592,263	9.43%

(Billingslea, Fletcher, Walden)

**Staff Analysis:** In its MFRs, Placid Lakes requested interim rates designed to generate annual revenues of \$643,135. This represents a water revenue increase of \$101,903 (18.83 percent). The Utility has filed rate base, cost of capital, and operating statements to support its requested revenue increase.

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying appropriate adjustments consistent with those made in a Utility's most recent rate proceeding. Staff has reviewed the Utility's interim request, as well as prior orders concerning the Utility's rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedule is shown on Schedule No. 1-A, with adjustments shown on Schedule No. 1-B; the capital structure schedule is shown on Schedule No. 2, and the operating income schedule is shown on Schedule No. 3-A, with the adjustments shown on Schedule No. 3-B.

RATE BASE

Placid Lakes filed a year-end water interim rate base for the calendar year ended December 31, 2007. Pursuant to Rule 25-30.433(4), for Class B and C utilities, rate base is to be calculated using a simple average of the beginning and end-of-year balances. Plant-in-service, accumulated depreciation, contributions in aid of construction (CIAC), and accumulated amortization of DIAC should reflect simple average balances. To properly reflect simple average balances, staff recommends that plant-in-service, accumulated depreciation, CIAC, and accumulated amortization of CIAC should be decreased as follows:

<u>Adjustments Required to Reflect Simple Average Balances</u>	
Plant-in-Service	(\$36,988)
Accumulated Depreciation	\$45,372
CIAC	\$31,462
Accumulated Amort. of CIAC	(\$24,608)

In its MFRs, Placid Lakes reflected a \$36,993 non-used and useful plant adjustment, and corresponding adjustments to decrease depreciation expense and property taxes by \$437 and \$1,860, respectively. Pursuant to Section 367.082(5)(b)1, F.S., the only adjustments that should be made to the interim test year are those consistent with the most recent individual rate proceeding or adjustments to annualize rate changes occurring during the interim test year. Staff

reviewed the Utility's MFRs and Order No. PSC-01-0327-PAA-WU for consistency with the last rate proceeding. As a result of this review, staff believes adjustments are necessary related to the Utility's last rate case.

First, for interim purposes, Placid Lakes incorrectly applied a used and useful of 100 percent to its water treatment plant, rather than its calculated test year used and useful of 98 percent. Further, while in Placid Lakes' last rate case the Commission found the water treatment plant to be 100 percent used and useful, the well capacities have increased since the Utility's last rate proceeding. Applying the current well capacities, with the used and useful methodology used in the Utility's last rate case, staff calculated a used and useful of 91 percent for the water treatment plant.<sup>2</sup>

Second, Placid Lakes applied a used and useful percentage of 83.28 to its interim water transmission and distribution plant, rather than its calculated interim used and useful of 82.87 percent. Lastly, Placid Lakes applied its used and useful percentages to its net CIAC, instead of to net plant, as reflected in its last rate proceedings. See Order No. PSC-01-0327-PAA-WU, p. 8. To correct for the above errors, staff recommends the following adjustments:

Adjustments Required to Reflect Correct Plant, Depreciation, and Property Taxes		
Classification	Adjustment	Corrected Balance
Rate Base	(\$91,287)	\$128,280
Depreciation Expense	(\$4,534)	\$38,331
Property Taxes	\$700	62,933*

\* Staff's corrected balance for taxes other than income includes a reduction of \$4,586 in regulatory assessment fees resulting from the removal of the Utility's final requested revenue increase and a reduction of \$410 in payroll taxes addressed in the Net Operating Income section below.

Moreover, as discussed below, staff has removed several pro-forma expense items which affect the working capital allowance. In accordance with Rule 25-30.433(2), Florida Administrative Code (F.A.C.), staff calculated a working capital allowance of \$56,139 based on one-eighth of Operation and Maintenance expenses. As such working capital should be reduced by \$873.

Based on the above, staff recommends that interim rate base should be \$470,216.

#### COST OF CAPITAL

In its MFRs, the Utility reflected a capital structure consisting solely of common equity and customer deposits with cost rates of 8.93 percent and 6 percent, respectively. To determine the accuracy of the amounts, staff compares the capital structure amounts with amounts contained in the Utility's balance sheet. However, Placid Lakes failed to provide its balance

<sup>2</sup> Staff's adjustment here is consistent with the Commission's recent decision for Labrador Utilities, Inc.'s (Labrador) interim rate request, wherein the approved interim used and useful percentage using the same methodology in the last rate case was much less than the used and useful percentage approved in Labrador's last rate proceeding. See Order PSC-08-0751-PCO-WS, issued November 13, 2008, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

sheet in its MFRs as required by Rule 25-30.437, F.A.C. Staff identified this omission in its deficiency letter mailed to Placid Lakes on November 14, 2008.

As the Utility did not supply a balance sheet, staff relied on the data contained in Placid Lakes' 2007 Annual Report. As Rule 25-30.110(2), F.A.C. requires each utility to provide information to the Commission that is consistent with its annual report, staff believed reliance on Placid Lakes' Annual Report was an excellent proxy for the missing balance sheet.

In reviewing Placid Lakes' Annual Report, staff noted that a negative cost of equity was reported. Based on staff's review, during Placid Lakes' last rate case, the Utility had a negative cost of equity balance. In that case, the Commission offset the negative common equity with advances from associated companies at a cost rate of prime plus one percent. See Order No. PSC-01-0327-PAA-WU, p. 9, 10, and 36.

As required by Section 367.082(5)(b)1, F.S., the only adjustments that should be made to the interim test year are those consistent with the most recent individual rate proceeding or adjustments to annualize rate changes occurring during the interim test year. In staff's opinion, Placid Lakes' proposed interim capital structure is inconsistent with the Commission's decision in the Utility's last rate case.

In addition, Placid applied year-end amounts in its requested capital structure for the calendar year ended December 31, 2007. Pursuant to Rule 25-30.433(4), for Class B and C utilities, the capital structure is to be calculated using a simple average of the beginning and end-of-year balances.

To correct the Utility's capital structure to reflect a simple average and to make the capital structure consistent with the Utility's last rate case, staff recommends that long-term debt be increased by \$620,127, common equity set to zero, and customer deposits reduced by \$1,716. Based on staff's adjustments, its recommended interim cost of capital is 8.42 percent.

#### NET OPERATING INCOME

Based on its review, staff recommends an adjustment to operating expenses. Placid Lakes included adjustments to increase water expenses by \$6,988 for annualized payroll, salary and wages, employees' benefits, legal fees, testing fees, tank maintenance, insurance, and miscellaneous expenses. Also, the Utility made corresponding adjustments to increase payroll taxes by \$410 for water. Pursuant to Section 367.082(5)(b)1, F.S., the only adjustments that should be made to the interim test year are those consistent with the most recent individual rate proceeding or adjustments to annualize rate changes occurring during the interim test year. Staff believes the Utility's proposed adjustments are pro forma in nature because they are beyond the interim test year. As such, staff recommends that Placid Lakes' pro forma expense and payroll tax adjustments above be removed from the interim net operating income calculation.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$9,195.

REVENUE REQUIREMENT

The Utility requested an interim revenue requirement of \$643,135. Based on the above, staff recommends an interim revenue requirement of \$592,263. This represents an interim revenue increase of \$51,031, or 9.43 percent. This will allow Placid Lakes the opportunity to recover its operating expenses and earn an 8.42 percent return on its rate base.

**Issue 3:** What are the appropriate interim water rates?

**Recommendation:** The water service rates for Placid Lakes in effect as of December 31, 2007, should be increased by 9.79 percent to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission's decision, the proposed customer notice is adequate, and the required security discussed in Issue 4 has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice. (Billingslea, Fletcher)

**Staff Analysis:** Staff recommends that interim wastewater service rates for Placid Lakes be designed to allow the Utility the opportunity to generate annual operating revenues of \$592,263. This reflects an increase of \$51,031, or 9.43 percent, before removal of miscellaneous revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. In its MFRs, Placid Lakes included miscellaneous revenues of \$20,118. The calculation is as follows:

1	Total Test Year Revenues	\$541,232
2	Less: Miscellaneous Revenues	<u>\$20,118</u>
3	Test Year Revenues from Service Rates	\$521,114
4	Revenue Increase	<u>\$51,031</u>
5	% Service Rate Increase (Line4/Line 3)	<u>9.79%</u>

The interim rate increase of 9.79 percent for water should be applied as an across-the-board increase to the service rates in effect as of December 31, 2007. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission's decision, the proposed customer notice is adequate, and the required security discussed in Issue 4 has been filed. The Utility should provide proof of the date notice was given within 10 days after the date of notice.

The Utility's test year, proposed interim and final water rates, and staff's recommended interim water rates are shown on Schedule No. 4.



**Issue 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** Placid Lakes cannot support a corporate undertaking in the amount of \$30,113. The Utility should provide either an escrow agreement, a bond, or a letter of credit to guarantee the interim rates collected subject to refund. If the security provided is an escrow agreement, Placid Lakes should deposit 9.43 percent of water revenues into the escrow account each month. If the security provided is a bond or letter of credit, said instrument should be in the amount of \$30,113. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. (Billingslea, Fletcher, Livingston)

**Staff Analysis:** Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$51,031. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$30,113. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule No. 4.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff has reviewed Placid Lakes' financial statements from 2005 to 2007 to determine the financial condition of the parent company. Placid Lakes' average equity ratio, working capital, and current ratio are within acceptable parameters. However, the Utility's relative level of liquidity, working capital and current ratio has steadily declined over the three year review period. In addition, the Utility reports negative interest coverage in 2007 and net losses through the period. Net losses have steadily increased and have averaged over \$70,000 per year. Based upon this analysis, staff believes that Placid Lakes cannot support a corporate undertaking in the amount of \$30,113. Therefore, staff recommends that the Utility provide an escrow agreement, a bond, or a letter of credit to guarantee the interim rates collected subject to refund.

If the security provided is an escrow account, the Utility should deposit 9.43 percent of water revenues into the escrow account each month. In addition, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 ( Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) This account must specify by whom and on whose behalf such monies were paid.

If the security provided is a bond or letter of credit, said instrument should be in the amount of \$30,113. In addition, the bond or letter of credit should state that it will be released or should terminate only upon subsequent order of the Commission.

Regardless of the type of security provided, the Utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the Utility.

Docket No. 080353-WU  
Date: December 4, 2008

**Issue 5:** Should this docket be closed?

**Recommendation:** No. The docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Young, Billingslea, Fletcher)

**Staff Analysis:** The docket should remain open pending the Commission's final action on the Utility's requested rate increase.

<b>Placid Lakes Utilities, Inc.</b>		<b>Schedule No. 1-A</b>				
<b>Schedule of Water Rate Base</b>		<b>Docket No. 080353-WU</b>				
<b>Test Year Ended 12/31/07</b>						
<b>Description</b>		<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1	Plant in Service	\$2,668,467	\$0	\$2,668,467	(\$36,988)	\$2,631,479
2	Land and Land Rights	1,000	0	1,000	0	1,000
3	Non-used and Useful Components	0	(36,993)	(36,993)	(91,287)	(128,280)
4	Accumulated Depreciation	(1,064,711)	0	(1,064,711)	45,372	(1,019,339)
5	CIAC	(1,648,731)	0	(1,648,731)	31,462	(1,617,269)
6	Amortization of CIAC	704,165	0	704,165	(24,608)	679,557
7	Net Debit Deferred Income Taxes	0	0	0	0	0
8	Advances for Construction	(132,116)	(955)	(133,071)	0	(133,071)
9	Working Capital Allowance	0	57,012	57,012	(873)	56,139
10	<b>Rate Base</b>	<u>\$528,074</u>	<u>\$19,064</u>	<u>\$547,138</u>	<u>(\$76,922)</u>	<u>\$470,216</u>

<b>Placid Lakes Utilities, Inc.</b> <b>Adjustments to Rate Base</b> <b>Test Year Ended 12/31/07</b>		<b>Schedule No. 1-B</b> <b>Docket No. 080353-WU</b>
<b>Explanation</b>		<b>Water</b>
<u>Plant in Service</u> To reflect the 2007 simple average balance.		<u>(\$36,988)</u>
<u>Non-used and Useful Components</u> To reflect the appropriate non-U&U components.		<u>(\$91,287)</u>
<u>Accumulated Depreciation</u> To reflect the 2007 simple average balance.		<u>\$45,372</u>
<u>CIAC</u> To reflect the 2007 simple average balance.		<u>\$31,462</u>
<u>Accumulated Amortization of CIAC</u> To reflect the 2007 simple average balance.		<u>(\$24,608)</u>
<u>Working Capital</u> To reflect the appropriate interim working capital allowance.		<u>(\$873)</u>

**Placid Lakes Utilities, Inc.**  
**Capital Structure-Simple Average**  
**Test Year Ended 12/31/07**

**Schedule No. 2**  
**Docket No. 080353-WU**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	685,969	0	685,969	(155,627)	530,342	96.93%	8.93%	8.66%
5 Customer Deposits	16,796	0	16,796	0	16,796	3.07%	6.00%	0.18%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$702,765</u>	<u>\$0</u>	<u>\$702,765</u>	<u>(\$155,627)</u>	<u>\$547,138</u>	<u>100.00%</u>		<u>8.84%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$0	\$620,127	\$620,127	(\$164,990)	\$455,137	96.79%	8.50%	8.23%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	685,969	(685,969)	0	0	0	0.00%	8.93%	0.00%
12 Customer Deposits	16,796	(1,716)	15,080	0	15,080	3.21%	6.00%	0.19%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<u>\$702,765</u>	<u>(\$67,558)</u>	<u>\$635,207</u>	<u>(\$164,990)</u>	<u>\$470,217</u>	<u>100.00%</u>		<u>8.42%</u>
						<b>LOW</b>	<b>HIGH</b>	
						RETURN ON EQUITY	<u>8.93%</u>	<u>10.93%</u>
						OVERALL RATE OF RETURN	<u>8.42%</u>	<u>8.42%</u>

<b>Placid Lakes Utilities, Inc.</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>						<b>Docket No. 080353-WU</b>	
<b>Test Year Ended 12/31/07</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$549,215</u>	<u>\$93,920</u>	<u>\$643,135</u>	<u>(\$101,903)</u>	<u>\$541,232</u>	<u>\$51,031</u> 9.43%	<u>\$592,263</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$449,111	\$6,988	\$456,099	(\$6,988)	\$449,111		\$449,111
3 Depreciation	43,302	(437)	42,865	(4,534)	38,331		38,331
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	70,095	(2,866)	67,229	(4,296)	62,933	2,296	65,229
6 Income Taxes	0	<u>28,574</u>	<u>28,574</u>	<u>(46,913)</u>	<u>(18,339)</u>	<u>18,339</u>	<u>(0)</u>
7 <b>Total Operating Expense</b>	<u>\$562,508</u>	<u>\$32,259</u>	<u>\$594,767</u>	<u>(\$62,730)</u>	<u>\$532,037</u>	<u>\$20,635</u>	<u>\$552,672</u>
8 <b>Operating Income</b>	<u>(\$13,293)</u>	<u>\$61,661</u>	<u>\$48,368</u>	<u>(\$39,173)</u>	<u>\$9,195</u>	<u>\$30,396</u>	<u>\$39,591</u>
9 <b>Rate Base</b>	<u>\$528,074</u>		<u>\$547,138</u>		<u>\$470,216</u>		<u>\$470,216</u>
10 <b>Rate of Return</b>	<u>-2.52%</u>		<u>8.84%</u>		<u>1.96%</u>		<u>8.42%</u>

Placid Lakes Utilities, Inc. Adjustment to Operating Income Test Year Ended 12/31/07	Schedule 3-B Docket No. 080353-WU
Explanation	Water
<u>Operating Revenues</u>	
Remove requested final revenue increase	<u>(\$101,903)</u>
<u>Operation and Maintenance Expense</u>	
1 Annualize payroll	(\$5,361)
2 Adjust employee benefits to reflect annualized payroll	(1,829)
3 Normalize legal fees to reflect 5 year average levels	(2,108)
4 Normalize testing fees to 5 year average levels	(648)
5 Adjust operations contract to amortize tank maintenance over two years	10,800
6 Adjust insurance to reflect actual premium costs	(958)
7 Normalize miscellaneous expenses to reflect 5 year average levels	<u>(6,884)</u>
Total	<u>(\$6,988)</u>
<u>Depreciation Expense</u>	
To reflect the appropriate non-U&U depreciation expense.	<u>(\$4,534)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above	(\$4,586)
2 To reflect the appropriate non-U&U property taxes.	700
3 Adjust taxes to reflect appropriate payroll tax	<u>(410)</u>
Total	<u>(\$4,296)</u>



<b>Placid Lakes Utilities, Inc.</b>		<b>Schedule No. 4</b>		
<b>Water Monthly Service Rates</b>		<b>Docket No. 080353-WU</b>		
<b>Test Year Ended 12/31/07</b>				
	<b>Rates Prior to Filing</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Interim</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$9.73	\$11.58	\$14.64	\$10.68
1"	\$14.60	\$17.37	\$21.96	\$16.03
1-1/2"	\$24.37	\$29.00	\$36.66	\$26.76
2"	\$48.64	\$57.88	\$73.16	\$53.40
3"	\$77.85	\$92.64	\$117.10	\$85.47
4"	\$155.69	\$185.28	\$234.18	\$170.94
6"	\$243.28	\$289.51	\$365.93	\$267.10
Gallonage Charge, 0-10,000 Gallons	\$2.80	\$3.33	\$3.27	\$3.07
Gallonage Charge, 10,001-20,000 Gallons	\$4.15	\$4.94	\$4.90	\$4.56
Gallonage Charge, over 20,000 Gallons	\$5.50	\$6.55	\$6.53	\$6.04
GS Gallonage Charge, per 1,000 Gallons	\$3.18	\$3.78	\$3.76	\$3.49
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>				
3,000 Gallons	\$18.13	\$21.57	\$24.45	\$19.89
5,000 Gallons	\$23.73	\$28.23	\$30.99	\$26.03
10,000 Gallons	\$37.73	\$44.88	\$47.34	\$41.38