

VOTE SHEET

June 30, 2009

Docket No. 080597-WS – Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

Issue 1: Is the quality of service provided by Southlake satisfactory?

Recommendation: Yes. The overall quality of service provided by Southlake is satisfactory.

DEFERRED

Issue 2: What are the used and useful percentages of Southlake’s water treatment plant, ground storage tanks, and water distribution lines?

Recommendation: The Southlake water treatment plant, ground storage tanks, and water distribution system are 100 percent used and useful.

DEFERRED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS’ SIGNATURES

MAJORITY

DISSENTING

REMARKS/DISSENTING COMMENTS: Commissioner Argenziano participated in the conference by telephone. The vote sheet will be signed at a later date.

DOCUMENT NUMBER-DATE

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Issue 3: What are the used and useful percentages of the utility's wastewater treatment plant and wastewater collection system?

Recommendation: The Southlake wastewater treatment plant is 76 percent used and useful. The used and useful adjustment should be made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. The wastewater collection system should be considered 100 percent used and useful.

DEFERRED

Issue 4: Should the audit adjustments to rate base to which the utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, plant in service should be increased \$55,660 for water and decreased \$307,196 for wastewater. Accumulated depreciation should be decreased \$22,892 for water and decreased \$4,279 for wastewater.

DEFERRED

Issue 5: Should any additional adjustments be made to the Utility's test year plant in service balance?

Recommendation: Yes. Staff recommends that plant in service be decreased by an additional \$350,853 for water and \$1,164,175 for wastewater.

DEFERRED

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital should be \$55,897 for water and \$89,321 for wastewater.

DEFERRED

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Issue 7: Should any adjustments be made to the Contributions in Aid of Construction balances ending December 31, 2008?

Recommendation: Yes. Contributions in Aid of Construction (CIAC) should be increased by \$8,958 for water and \$7,525 for wastewater and the associated accumulated amortization of CIAC should be decreased by \$271 for water and \$168 for wastewater.

DEFERRED

Issue 8: What is the appropriate rate base for the December 31, 2008, test year?

Recommendation: Based on staff's recommended adjustments, addressed in previous issues, the appropriate simple average rate base for the test year ending December 31, 2008, is \$3,787,926 for water and \$970,486 for wastewater.

DEFERRED

Issue 9: What is the appropriate return on equity?

Recommendation: The appropriate return on equity (ROE) should be 9.48 percent, based on the Commission's approved 2008 leverage formula and equity ratio of 100 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

DEFERRED

Issue 10: What is the appropriate overall weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008?

Recommendation: The appropriate overall weighted average cost of capital for the test year ending December 31, 2008, is 9.33 percent.

DEFERRED

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Issue 11: Should any adjustments be made to operation and maintenance expenses?

Recommendation: Staff performed an analysis of O&M expenses for water and wastewater to determine if the amounts recorded in the general ledger were accurately stated and to determine if a difference exists between O&M expenses reported in the general ledger and O&M expenses reported in the filing. Based on staff's analysis, the following adjustments should be made:

O&M Balances The company filing includes O&M expenses based upon projections for the calendar year 2008. Total O&M expenses per the utility filing are \$624,964 for water and \$927,017 for wastewater. Test year general ledger balances for O&M water and wastewater expenses are \$589,016 and \$929,931 respectively, a difference of \$35,948 for water and \$2,914 for wastewater. An adjustment of (\$35,948) for water and \$2,914 for wastewater should be made to the filing for the difference between amounts in the filing and the test year general ledger amounts.

Rate Case Expense Staff's calculated rate case expense should be recovered over four years for an annual expense of \$59,986, with \$29,993 allocated to water and \$29,993 allocated to wastewater. As recommended in audit finding No. 6, staff removed utility rate case expense of \$68,307 for water and \$67,307 for wastewater included in the test year. See Issue No. 12.

Purchased Power The company's general ledger showed purchased power expense of \$66,977 for water and \$115,841 for wastewater for the test year. Per the audit, purchased power expense for the test year of 2008 was \$68,692 for water and \$117,814 for wastewater. Staff made adjustments of \$1,715 for water and \$1,973 for wastewater purchased power expense. This was done to include purchased power expense incurred during the test period, but billed after the test period.

Land Lease According to the audit report, for the test year, the utility had a capital lease agreement with Southlake Development, Ltd. A capital lease requires a company to record the plant asset on its books and records, with payments made to the lessor used to reduce the cost of land lease obligation. Instead, the utility recorded the payments to expense accounts 641 and 741 (Rental of Building - Real Property) in the amounts of \$11,778 and \$45,299, respectively. As this property is now owned by the utility, staff recommends that these costs be removed from O&M expenses.

Contractual Services - Other The company included contractual services-other costs of \$8,250 in water and \$8,250 in wastewater for the test year which were out-of-period non-recurring expenses. The costs were incurred in connection with an examination by the Internal Revenue Service for the 2005 tax year. Staff removed these costs as out-of-period expenses.

Communication Expense Staff reviewed postage costs included in the utility's communications expense account. Auditors found support for \$1,324 of water and \$1,324 of wastewater postage expense. The utility recorded \$1,750 of water and \$1,750 of wastewater postage expense. Staff made adjustments of (\$426) to water and (\$426) to wastewater communication expense to reflect the unsupported postage cost.

Reclassification of Capital Costs

The auditors determined that the utility expensed certain costs that should have been recorded as capital expenditures. These costs were for the following items:

	<u>Water</u>	<u>Wastewater</u>
Mapping	\$34,476	\$34,477
Sanitary Lateral Connection	0	\$5,700
Lift Station Construction	0	\$17,259
Total	<u>\$34,476</u>	<u>\$57,436</u>

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Unsupported Expense

The utility bears the responsibility of maintaining documentation which supports its general ledger amounts. During the audit analysis of O&M expense, the utility could not provide supporting documentation for certain expenses items recorded in the general ledger. Unsupported water expense totaled \$20,315 and wastewater expense totaled \$38,615. Staff recommends that these amounts be removed from O&M for the test year.

Conclusion

In conclusion, based on the above adjustments, along with rate case expense (See Issue No. 12), staff recommends that O&M expenses be reduced by \$147,792 for water and \$182,453 for wastewater. The following table reflects staff's O&M expense adjustments for the test year ending December 31, 2008:

Description of O&M Expense	Staff Adjustments to 2008 O&M	
	Water	Wastewater
To adjust filing to 12/31/2008 General Ledger (AF No. 6)	(\$35,948)	\$2,914
To reflect staff calculated Rate Case expense	29,993	29,993
To adjust purchased power to test year amount	1,715	1,973
To remove land lease expense (AF No. 6)	(11,778)	(45,297)
To remove out of test year contractual services	(8,250)	(8,250)
To reflect actual test year postage cost	(426)	(426)
To reflect audit finding regarding reclassification of capital costs (AF No. 6)	(34,476)	(57,436)
To reflect audit finding regarding Undocumented Costs (AF No. 6)	(20,315)	(38,615)
To remove test year rate case expense (AF No. 6)	(68,307)	(67,307)
Total	(\$147,792)	(\$182,453)

DEFERRED

Issue 12: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense should be \$239,945. This expense should be recovered over four years for an annual expense of \$59,986, with \$29,993 allocated to water and \$29,993 allocated to wastewater. A deferred cost balance for rate case expense should be created for both water and wastewater in the amount of \$89,979.

DEFERRED

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Issue 13: Should any adjustments be made to the 2008 test year taxes other than income for water and wastewater?

Recommendation: Yes. Taxes other than income for the 2008 test year should be increased by \$4,611 for water and decreased by \$10,348 for wastewater.

DEFERRED

Issue 14: Should any adjustments be made to net depreciation expense for 2008 for water and wastewater?

Recommendation: Yes. Net depreciation expense for water should be decreased by \$4,315 and net depreciation expense for wastewater should be decreased by \$46,206.

DEFERRED

Issue 15: What is the test year water and wastewater operating income before any revenue increases?

Recommendation: The test year operating income should be \$230,269 for water and (\$133,834) for wastewater.

DEFERRED

Issue 16: What is the appropriate pre-repression revenue requirement for the December 31, 2008 test year?

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

	Test Year <u>Revenues</u>	<u>Increase</u>	Revenue <u>Requirement</u>	<u>Increase</u>
Water	\$890,217	\$128,878	\$1,019,095	14.48%
Wastewater	\$695,973	\$234,936	\$930,909	33.76%

DEFERRED

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Issue 17: What are the appropriate rate structures for the utility's respective water and wastewater systems?

Recommendation: The appropriate rate structures for the utility's water system are a three-tiered inclining-block rate structure applicable to residential customers. The appropriate usage blocks are for monthly consumption of: 1) 0-10,000 gallons (10 kgals); 2) 10,001-20 kgals; and 3) consumption in excess of 20 kgals. The base facility charge (BFC)/uniform gallonage charge should be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system should be set at 40 percent. The appropriate rate structure for the utility's wastewater customers is the BFC/gallonage charge rate structure. Residential wastewater consumption should be capped for billing purposes at 10 gal per month. The general service wastewater gallonage charge should be 1.2 times the corresponding residential gallonage charge. The BFC cost recovery allocation for the wastewater system should be set at 50 percent.

DEFERRED

Issue 18: Are repression adjustments to the utility's water and wastewater systems appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility?

Recommendation: Yes, repression adjustments are appropriate. Residential water consumption should be reduced by 1.7 percent, resulting in a consumption reduction of approximately 4,366.9 kgals. Total residential water consumption for ratesetting is 250,473.1 kgals. Total water consumption for ratesetting is 535,321.1 kgals, which represents a 0.8 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$556 in purchased power expense, \$229 in chemicals expense and \$37 in RAFs. The post-repression revenue requirement for the water system is \$1,018,275. Residential wastewater consumption should be reduced by 1.4 percent, resulting in a consumption reduction of approximately 1,826.7 kgals. Total residential wastewater consumption for ratesetting is 133,074.3 kgals. Total wastewater consumption for ratesetting is 355,343.3 kgals, which represents a 0.5 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are \$603 in purchased power expense, \$164 in chemicals expense, \$1,098 in sludge removal expense and \$88 in RAFs. The post-repression revenue requirement for the wastewater system is \$930,055.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. **The reports should be filed with staff, on a semi-annual 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.

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Issue 19: What are the appropriate rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A of staff's memorandum dated June 18, 2009, and the corresponding appropriate monthly wastewater rates are shown on Schedule 4-B of staff's memorandum dated June 18, 2009. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$1,018,275, while the recommended wastewater rates are design to produce revenues of \$930,055. 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), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

DEFERRED

Issue 20: In determining whether any portion of the water and wastewater 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 and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, a water refund is required in the amount of \$16,613. For wastewater, a refund of \$44,492 is required.

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Issue 21: 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 memorandum dated June 18, 2009, to remove \$29,993 of water and \$29,993 of wastewater rate case expense, grossed up for RAFs, which is being amortized over a four-year period. The grossed up amount, factoring in a RAF of 4.5 percent, equals \$31,406 for both water and wastewater. 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 30 days prior to the actual date of the required rate reduction. 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. The rates should not be implemented until staff has approved the proposed customer notice. Southlake should provide proof of the date notice was given, no less than 10 days after the date of the notice.

DEFERRED

Issue 22: Should the utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission decision, Southlake should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

DEFERRED

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Issue 23: Should this docket be closed?

Recommendation: No. 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, a consummating order will be issued. 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 that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released.

DEFERRED