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Sent: Tuesday, July 07, 2009 5:37 PM
To: Filings@psc.state.fl.us
Cc: Bart Fletcher; pambrewer; jfg; guastella_newyork@msn.com
Subject: Placid Lakes Utilities, Inc Supplemental Information Regarding Used and Useful T & D Mains
Attachments: Ann Cole - 7-7-09.pdf

a. Person Responsible for Filing

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b. Docket Number and Title

Docket Number: 080353-WU
Title: Application of Placid Lakes Utilities, Inc. For Increased Water and
Wastewater Rates In Highlands County

c. Party On Whose Behalf Documents Are Filed

Placid Lakes Utilities, Inc.

d. Total Number of Pages in Each Document

10 pages

e. Brief Description of Each Attached Document

Letter dated July 7, 2009, to Ms. Ann Cole, Commission Clerk, with the following attachment:

Placid Lakes Utilities, Inc. Supplemental Information Regarding Used and Useful T&D Mains, with attached
Schedule Attachment 1 and Schedule Attachment 2.

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FPSC-COMMISSION CLERK

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July 7, 2009

VIA E-MAIL

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Ms. Cole:

In connection with the Application of Placid Lakes Utilities, Inc. ("Placid Lakes Utilities") For Increased Water Rates in Highlands County ("Application"), Docket No. 080353-WU, enclosed please find Supplemental Information Regarding Used and Useful T&D Mains with attached Schedule Attachment 1 and Schedule Attachment 2.

I trust that this letter and the attachment will be in order for filing. If, however, you have any questions or need any additional information concerning this matter, please do not hesitate to contact me.

Sincerely,

s/ James L. Ade

James L. Ade

JLA/lefr

cc: Mr. Bart Fletcher
Ms. Peggy Ann Brewer
Mr. John Guastella
Mr. Gary White

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Although we did not notice this issue in the Company's last rate case, during our preparation of the MFRs in this case we found that the used and useful percentage for transmission and distribution mains (T&D Mains) must not only be applicable to the original cost of the T&D Mains, but also to the related CIAC.

As of December 31, 2007 the original cost of all T&D Mains was \$1,247,479 (MFR Schedule A-5). The total of CIAC related to mains is \$1,122,264 (MFR Schedule A-12, Main Extension Fees of \$800,876 and Contributed Lines of \$321,388). Therefore, only \$125,215 of the original cost of T&D Mains was not contributed, which means approximately 90% of all T&D Mains was contributed. If the used and useful percentage of mains is less than 90%, then a portion of the cost of non-used and useful mains must consist of contributed mains.

Analyzing the data from the perspective of the installed footage of mains, ignoring diameters for ease of understanding, if the total T&D Mains consists of 348,434 feet of mains and 90% are contributed mains, then 313,590 feet of those mains are contributed. The Used and Useful Analysis using the FPSC methodology (provided as an attachment to the MFRs) shows that 67.37% or 234,740 feet of mains were used and useful (serving connected lots or mains of 6" or greater diameter) at December 31, 2007. Accordingly, if 313,590 feet of T&D Mains are contributed and only 234,740 are used and useful, then

clearly the cost of most of the remaining 113,694 non-used and useful mains was contributed.

The MFRs filed on behalf of the Company reflect the treatment of a portion of CIAC as non-used and useful or future use. Staff's recommended decision used the methodology previously used by the company in its last filing.

In response to our request, FPSC Staff agreed to re-examine this issue, and asked for a further analysis to more accurately identify the portion of the CIAC that should be treated as non-used and useful CIAC. We have prepared two schedules that provide the more detailed analysis. We note that the Company's filing did not address Advances for Construction ("Advances") with respect to used and useful considerations, but in preparing this analysis we have found that a portion of the Advances is also related to non-used and useful T&D Mains.

Schedule Attachment 1

This schedule provides an analysis of both CIAC and Advances associated with mains installed under Main Extension Agreements. These data are identified and provided in Work Paper 8 as a filing attachment to the MFRs. The schedule compares Staff's methodology (reducing the used and useful portion of the cost of mains by the full amount of CIAC and Advances) with the "correct methodology" which would only reduce used and useful mains by the amount of applicable *used and useful* CIAC and

Advances on only those mains that are 100% Used & Useful. The balance of Advances would apply to future use mains or mains associated with unconnected lots.

As shown on Schedule Attachment 1, Staff's calculation results in negative values for used and useful mains, net of CIAC and Advances, another indication that a portion of CIAC and Advances must be related to non-used and useful mains. On the other hand, the correct calculation results in an appropriately positive value for those same used and useful mains. This analysis verifies that applying 100% of CIAC and Advances to the used & useful mains costs is incorrect.

Schedule Attachment 2

This schedule summarizes the methodology that segregates the funding of the total original cost of T&D Mains among CIAC, Advances and Utility Investment, and then shows for each of those sources of funding the portions that are used and useful or future use. It also compares the results of that method with the results of Staff's calculations.

It is agreed that 67.37% of mains were used & useful for test year customers. Therefore, 67.37% or \$870,762 of the cost of mains of \$1,292,507 is "in-use" for test year customers. Schedule Attachment 1 shows that \$22,691 of Advances relate to used and useful mains. If the 79.09% of the cost mains is used and useful, after the allowance of margin reserve, then \$1,022,244 of the cost of main costs is used and useful, leaving

\$151,482 as the margin reserve. All costs not provided by \$22,691 of Advances are funded by a combination of CIAC in the amount of \$969,568 and Utility Investment in the amount of \$29,984.

The “future use” amount of \$270,263 is comprised of the balance of Advances in the amount of \$110,379 (\$131,071 less \$22,691) and \$155,088 of CIAC and \$4,796 of Utility Investment.

Again, this schedule demonstrates that both the “used and useful” mains and “future use” mains are funded through CIAC and Advances, and a small portion through Utility Investment. The total cost of T&D Mains is \$1,292,507, of which \$1,124,656 is funded by CIAC, \$133,071 is funded by Advances and only \$34,780 is funded by Utility Investment. Under the correct methodology, of the total \$34,780 in Utility Investment in T&D Mains, \$29,984 is used and useful and \$4,796 is future use. Staff’s methodology fails to recognize that \$270,263 of the cost of future use (non-used and useful) mains have been funded by CIAC and Advances, effectively converting the \$34,780 in Utility Investment into a negative \$235,483, an impossibility.

We appreciate this opportunity to supplement our support for this issue, and are available to answer any questions Staff may have regarding this submission.

Section	Street	Size	Data from Used and Useful Analysis Transmission & Distribution System					Mains Installed through Main Extension Agreements (2002-2007) (CIAC & Advances Information provide in Work Paper B attachment to MFR's)							
			Connected Lots	Total Lots	Original Cost	U&U Percent	U&U Amt.	PSC Staff Calculation			Corrected Calculation				
								CIAC \$ (WP B)	Advance \$ (WP B)	Rate Base Treatment	CIAC x U&U%	Advances on 100% U&U	Rate Base Treatment		
20	Corsica	6"													
20	Jersey	6"													
20	Jefferson	6"	15	35	19,893	100.00%	19,893	(1,104)	(4,830)	13,759	(1,104)	(4,830)	13,759		
20	Lincoln	6"													
20	Islamorada	3"													
20	Kodiak	4"	2	7	991	28.57%	283	(283)	(708)	(708)	(81)	-	202		
20	Placid View	6"													
21	Catfish Creek Rd	6"													
A) Total Main Extension Mains			249	825	\$ 318,530		\$ 170,793	\$ (95,965)	\$ (133,071)	\$ (58,243)	\$ (58,853)	\$ (22,681)	\$ 91,248		

**Analysis of Rate Base Treatment of Pro Forma Used & Useful Original Cost of Mains
Comparing Results of U&U Calculation of CIAC Mains**

**Results of
Correct Methodology**

	In-Use	U&U	Margin	Rate Base U&U A+B+C	Unconnected		Future Use D+E	Total
	A	Advances B	Reserve C		Advances D	Other E		
Original Cost	\$ 848,071 65.61%	\$ 22,691 1.76%	\$ 151,482 11.72%	\$ 1,022,244 79.09%	\$ 110,379 8.54%	\$ 159,884 12.37%	\$ 270,263 20.91%	\$ 1,292,507
CIAC (F)	\$ (822,631)		\$ (146,938)	\$ (969,568)		\$ (155,088)	\$ (155,088)	\$ (1,124,656)
Advances		\$ (22,691)		\$ (22,691)	\$ (110,379)		\$ (110,379)	\$ (133,071)
Totals	\$ 25,440	\$ -	\$ 4,544	\$ 29,984	\$ -	\$ 4,796	\$ 4,796	\$ 34,780

A = .6737 of Total less U&U advances
B = U&U Advances per analysis on Attachment 2
C = .7909 of Total less A & B
D = Total Advances less B
E = Total less A, B, C, D
F = Proportionate allocation of CIAC to all but Advances dollars.

**Results of
Staff's Methodology**

	In-Use	U&U	Margin	Rate Base U&U	Unconnected		Future Use	Total
		Advances	Reserve		Advances	Other		
Original Cost	\$ 848,071	\$ 22,691	\$ 151,482	\$ 1,022,244 79.09%	\$ 110,379	\$ 159,884	\$ 270,263 20.91%	\$ 1,292,507
CIAC	\$ (954,215)		\$ (170,441)	\$ (1,124,656)				\$ (1,124,656)
Advances		\$ (133,071)		\$ (133,071)				\$ (133,071)
Totals	\$ (106,144)	\$ (110,380)	\$ (18,959)	\$ (235,483)	\$ 110,379	\$ 159,884	\$ 270,263	\$ 34,780