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Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 28, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Brown, Buys, Daniel, Lingo, Maurey, Rieger, Stallcup, Thompson)
Office of the General Counsel (Young)

RE: Docket No. 100128-WU – Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.

AGENDA: 08/09/11 – Regular Agenda – Proposed Agency Action Except For Issue Nos. 23 and 24 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 08/09/11

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100128.RCM.DOC

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Case Background

Lighthouse Utilities Company, Inc. (Lighthouse or Utility) is a Class B utility serving approximately 1,361 water customers in Gulf County. Rates were last established for this Utility in 1988.[1]

On September 1, 2010, Lighthouse filed its application for the rate increase at issue in this instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. Lighthouse had several deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and February 21, 2011, was established as the official filing date.

The test year established for final rates is the simple-average period ended December 31, 2009. The Utility requested final rates designed to generate annual revenues of $644,664. This represents a revenue increase of $172,300 or approximately 36 percent.

By letter dated June 20, 2011, the Utility waived the statutory 5-month deadline for this case through August 10, 2011. This recommendation addresses Lighthouse's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

[1] See Order No. 18897, issued February 22, 1988, in Docket No. 870627-WU, In re: Application of Lighthouse Utilities Company, Inc. for a staff-assisted rate case in Gulf County.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: Yes. The quality of service provided by Lighthouse is satisfactory. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of operations. These components are the quality of the utility's product, the operational condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed, as well as the utility's compliance with the Department of Environmental Protection (DEP).

Quality of Utility's Product and Operational Condition of Plant and Facilities

Lighthouse is current in all of the DEP required chemical analyses and treatment standards. In an April 1, 2011 Compliance Inspection Report, DEP found the water system to be in good operational order and well maintained. However, DEP recommended that the Utility develop a more detailed written emergency response plan and submit a status report for nine outstanding construction permits. The Utility is in the process of addressing DEP's concerns and there are no outstanding warning letters or compliance orders.

The Utility's Attempt to Address Customer Satisfaction

Customer Meeting A customer meeting was held on May 4, 2011, in Port St. Joe, Florida. Six customers attended the evening meeting and two of the customers spoke. Neither had concerns over the existing quality of service provided by the Utility, although one customer did have concerns over the level of the proposed rate increase. He was also interested in what the Utility was doing to limit possible salt water intrusion in the Utility's drinking water source of supply. Staff explained that, if salt water intrusion became a problem, an alternative water source through an existing interconnection with the City of Port St. Joe could possibly be used. Speaking in support of the proposed rate increase, the second customer stated that sufficient revenues are probably necessary in order for the Utility to continue to provide adequate service.

Customer Complaints and Correspondence Since 2008, there have been four customer complaints filed with the Commission, all of which were billing related. There are currently no active complaints on file. Based on staff's review of the customer complaints logged with the Utility during the test year, there was one complaint concerning a billing issue which appears to have been resolved. In addition, the Commission received correspondence from one customer who expressed concern over the proposed rate increase.

Summary

In the Utility's last rate case, Docket No. 870627-WU, the overall quality of service was found to be satisfactory. Based on the analysis above, staff recommends that Lighthouse's quality of product, operational conditions of the facilities, and its attempt to address customer satisfaction is satisfactory. Therefore, staff recommends that Lighthouse's overall quality of service be considered satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to operating expenses to which the Utility agrees be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, operation and maintenance (O&M) expenses should be decreased by $13,299, and taxes other than income (TOTI) should be increased by $638. (Fletcher)

Staff Analysis: In its response to the staff's audit report, Lighthouse agreed to adjustments for Audit Findings 5 and 6. Audit Finding 5 addresses numerous adjustments for out-of-period and unsupported costs, as well as an increase for a supported cost not included in the MFRs. The net total reduction to O&M expenses for Audit Finding 5 is $13,299. Audit Finding 6 addresses adjustments for supported taxes other than income (TOTI) not included in the MFRs which resulted in an increase of $638. Staff recommends decreasing O&M expenses by $13,299 and increasing TOTI by $638.

Issue 3: Should any further adjustments be made to the test year plant?

Recommendation: Based on support documentation provided by the Utility, plant should be reduced by $292,961. Corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by $169,430 and $10,098, respectively. Lastly, O&M expenses should be increased by $10,400. (Fletcher)

Staff Analysis: Lighthouse recorded plant of $3,264,624. The Utility was unable to support this plant balance due to a loss of records from flooding caused by a 2004 hurricane. Staff auditors were only able to perform limited audit work for the years 2005 to 2009.

The Utility was asked to perform an original cost study dating back to the last test year of June 30, 1987. Lighthouse provided old contracts, invoices, and limited original cost estimates to support plant additions since its last test year in the amount of $2,449,536. However, the Utility's responses contained several discrepancies, including duplicate invoices provided during the audit and items that should have been expensed rather than capitalized. Due to a lack of support documentation, staff has decreased plant by $282,561. Further, Lighthouse was incorrectly booking Contractual Service expenses paid to its plant operator to rate base in the plant account. The total amount booked to plant, instead of O&M expenses, for the test year was $10,400.

Based on the support documentation provided by the Utility, staff recalculated plant, accumulated depreciation, and depreciation expense. As a result of this calculation, staff recommends that UPIS be reduced by $292,961 ($282,561 + $10,400). Corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by $169,430 and $10,098, respectively. Finally, O&M expenses should be increased by $10,400.

Issue 4: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. Plant should be increased by $37,247. Accordingly, accumulated depreciation and depreciation expense should be increased by $508. Lastly, TOTI should be increased by $494. (Fletcher, Rieger)

Staff Analysis: Lighthouse did not include pro forma plant additions in its MFRs. In its response to a staff data request, the Utility projected pro forma plant additions in the amount of $240,000 for a generator and a utility vehicle. However, the documentation provided only supported pro forma plant additions completed in 2010, including $30,584 for a water main extension project, and $6,664 for new water meters. Based on the above, staff recommends that plant should be increased by $37,247 ($30,584 + $6,664) to reflect the appropriate amount of pro forma plant additions. In addition, accumulated depreciation and depreciation expense should be increased by $508. Lastly, TOTI should be increased by $494.

Issue 5: What are the used and useful percentages of the Utility's water system?

Recommendation: Lighthouse's water treatment plant and storage facilities should be considered 100 percent used and useful (U&U). The water transmission and distribution system should be considered 82 percent U&U. This results in a non-U&U rate base adjustment of $81,022, as well as corresponding non-U&U depreciation expense and property tax adjustments of $824 and $1,264, respectively. In addition, a 11.3 percent excessive unaccounted for water (EUW) adjustment should be made to the appropriate operational expenses, such as purchased power and chemicals to reflect excessive water loss. This results in a reduction to O&M expenses of $5,465. (Rieger, Fletcher)

Staff Analysis: Lighthouse serves 1,347 residential connections, as well as 14 general service connections in approximately 13 square miles of coastal area adjacent to and south of the City of Port St. Joe (City) in Gulf County. The customers include single and multifamily units, a state park and recreational areas, environmentally sensitive areas, governmental properties (military), and other vacant property along the coast.

The Utility's water system includes two interconnected water treatment plants (WTPs) composed of a single well each, aeration facilities, gas chlorination, high service pumps, three water storage tanks, and a distribution system that extends throughout the service area. There is also an interconnected pressure boosting facility composed of a storage tank and high service pumps. In addition to the above, there is also an interconnection with the City. This interconnection is, at present, considered back up emergency capacity.

The Utility provided a copy of a 2009 Capacity Analysis Report Update (Report) for the water treatment plant in support of its application. The Report indicated that by 2014, the Utility's ability to meet demand will be in jeopardy. The Report also indicated that the Utility is working with the City to determine the most cost effective solution for the purchase of all or most of its water from the City. Some options for improvements include a distribution system booster station, a supply main from the City to the Utility's WTP, or raising the City's elevated storage tank. The Utility asserts that its water system, including the WTP, storage, and distribution system, is 100 percent U&U.

Water Treatment Plant and Storage

Pursuant to Rule 25-30.4325(7), F.A.C., the U&U calculation for a WTP with storage capacity is based on peak demand, required fire flow, adjustment for any EUW (11.3 percent), and a growth allowance, divided by the firm reliable capacity of the wells. The Utility has two wells with capacities of 450 and 400 gallons per minute (gpm), respectively. The Utility proposed using the capacity of the largest well, 432,000 gallons per day (gpd), for its firm reliable capacity, as described in the Report. However, pursuant to Rule 25-30.4325(6), F.A.C., the firm reliable capacity should be based on the capacity of the smaller well. Therefore, staff recommends that the Utility's firm reliable capacity is 384,000 gpd based on 16 hours of pumping and excluding the largest well. The peak day of 612,000 gallons occurred on June 17, 2009, and the required fire flow is 60,000 gpd. The Utility did not request a growth allowance.

Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the Lighthouse WTP is 100 percent U&U because the peak demand exceeds the firm reliable capacity. In addition, based on staff's calculation, a 11.3 percent EUW adjustment should be made to purchased power and chemicals expenses to reflect the EUW. This results in a reduction in O&M expenses of $5,465.

Lighthouse has four ground storage tanks with a combined useable storage capacity of 494,100 gallons. The U&U storage capacity is determined by dividing the peak demand by the useable storage capacity. Pursuant to Rule 25-30.4325, F.A.C., the storage tanks should be considered 100 percent U&U because the Utility's peak day exceeds the useable storage capacity.

Water Distribution System

The used and useful analysis for the water distribution system is typically based on a comparison of the lots connected to the distribution system with the total number of lots within the distribution system. However, due to the sprawling nature of the service area, it is difficult to identify the total number of lots that could ultimately connect to the existing distribution system. There are over 28 miles of distribution mains serving multiple small developments dispersed throughout the service area and adjacent to environmentally sensitive coastal areas not intended to be developed.

In its application, the Utility requested that the distribution system be considered 100 percent U&U because of the way the remaining potential connections are dispersed throughout the service area. However, the Utility also provided a comparison of the current number of connections and the estimated capacity of the lines using the capacity of the WTP as a proxy for the capacity of the distribution system. Although the Utility relied on the capacity of its largest well instead of the smallest well, as described in the Report, staff believes that this is a reasonable alternative method for determining the capacity of the distribution system (1,665 connections).

Based on staff's review, it appears that due to the recent economic downturn, the real estate market in the service area has been significantly affected. Because of this, there are multiple recently developed subdivisions of varying size with few or no active connections attached to the Utility's distribution system. Although no one can accurately foretell when the real estate market will pick up again, staff believes that the potential of growth does exist, and that the existing customer base should not be responsible for unused line capacity which was designed to serve the remaining lots. Therefore, based on 1,361 connections compared with the plant capacity of 1,665 connections, it is recommended that the distribution system be considered 82 percent U&U. This results in a non-U&U rate base adjustment of $81,022, as well as corresponding non-U&U depreciation expense and property tax adjustments of $824 and $1,264, respectively.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $44,351. As such, working capital should be decreased by $4,049. (Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Lighthouse's O&M expenses. As a result, staff recommends working capital of $44,351. This reflects a decrease of $4,049 to the Utility's requested working capital allowance of $48,400.

Issue 7: What is the appropriate rate base for the December 31, 2009 test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ended December 31, 2009, is $997,442. (Fletcher)

Staff Analysis: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ended December 31, 2009, is $997,442. Staff's recommended schedules for rate base are shown on Schedule 1-A and the adjustments are shown on Schedule 1-B.

COST OF CAPITAL

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 11.16 percent with an allowed range of plus or minus 100 basis points. (Fletcher)

Staff Analysis: The ROE included in the Utility's filing is 21.29 percent. Based on the current leverage formula in effect and an equity ratio of approximately 29 percent, the appropriate ROE is 11.16 percent.[2] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[2] See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

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, 2009?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2009 is 8.97 percent. (Fletcher)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 11.96 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, staff recommends a weighted average cost of capital of 8.97 percent. Schedule 2 details staff's recommended overall cost of capital.

NET OPERATING INCOME

Issue 10: What are the appropriate test year revenues?

Recommendation: The appropriate test year revenues for this utility are $470,419. (Lingo)

Staff Analysis: According to data contained in Lighthouse's MFRs, the Utility reported test year revenues of $472,364, as shown below:

Table 10-1

LIGHTHOUSE UTILITIES COMPANY, INC. DOCKET NO. 100128-WU TEST YEAR ENDING DECEMBER 31, 2009 TEST YEAR REVENUES PER UTILITY	
Residential Class	$ 434,982
Multi-Residential Class	1,988
Commercial Class	3,391
Other Class	31,678
Total Revenue From Rates	**$ 472,039**
Returned Check Fees	275
Late Charges	50
Total Booked Revenue	**$472,364**

Source: Lighthouse Utilities Company, Inc., Minimum Filing Requirements, Schedules E-2 and E-5 (second revisions).

A summary of staff's recommended billing determinants are shown below; however, they are discussed in greater detail in Issue 16.

Table 10-2

LIGHTHOUSE UTILITIES COMPANY, INC.
DOCKET NO. 100128-WU
TEST YEAR ENDING DECEMBER 31, 2009

RECOMMENDED TEST YEAR
BILLING DETERMINANTS

Customer Class	Bills	Appropriate Test Year Billing Determinants ERCs	Kgals
Residential	16,108	16,526.5	62,589
Multi-Residential	12	60.0	362
Commercial	76	124.0	387
Other	84	606.0	7,435
Totals	16,280	17,316.5	70,773

Source: Lighthouse Utilities Company, Inc., Minimum Filing Requirements, Schedule E-2 (second revision); Lighthouse's response staff's informal data request from June 09, 2011 meeting.

Staff's recommended test year revenues are a function of the recommended billing determinants as well as the appropriate test year base facility charge (BFC) and gallonage rates. The appropriate test year rates to apply to test year billing determinants are $14.60 per equivalent residential connection (based on a 5/8" x 3/4" meter) and $3.07 per kgal sold. Therefore, based on the foregoing, staff recommends that the appropriate test year revenues for this utility are $470,419, as shown below:

Table 10-3

LIGHTHOUSE UTILITIES COMPANY, INC. DOCKET NO. 100128-WU TEST YEAR ENDING DECEMBER 31, 2009 STAFF'S RECOMMENDED TEST YEAR REVENUES	
Residential Class	$433,435
Multi-Residential Class	1,987
Commercial Class	2,998
Other Class	31,673
Total Revenue From Rates (1)	**$ 470,094**
Returned Check Fees	275
Late Charges	50
Recommended TY Revenue	**$470,419**

(1) May not sum to total due to rounding.

Source: Table 10-2; Lighthouse Utilities Company, Inc., current tariffs.

Issue 11: Should any adjustments be made to Rental of Building and Contractual Services-Other expenses?

Recommendation: Yes. Rental of Building expense should be reduced by $3,500 and Contractual Services – Other expense should be reduced by $4,485. (Fletcher)

Staff Analysis: In its filing, Lighthouse recorded expenses of $6,610 and $21,164 for Rental of Building and Contractual Services-Other, respectively. Staff believes adjustments are necessary as discussed below.

Rental of Building

Lighthouse included in its test year $6,500 for Rental Building expense. According to Audit Finding 5, the Utility recorded 13 months of rental expense instead of 12 months. Staff recommends that $500 be removed for this error. Through observations, staff auditors calculated that the Utility only utilizes 50 percent of the building it rents for utility operations. The other 50 percent of the building is used by an affiliated real estate company. To account for this, staff recommends half of the net amount, or $3,000, be removed. In its response, Lighthouse agreed with the out-of-period adjustment of $500. However, it disagreed with the $3,000 adjustment. The Utility stated that, based on fair market values in the local area surrounding where the office is located and the convenience afforded Lighthouse by being able to provide an office within the service area for customers, the Utility receives a substantial savings compared to having to maintain an exclusive stand-alone building with the related maintenance and upkeep. Based on staff auditor observations of utility-related usage of the office building, staff recommends an adjustment of $3,000 to remove half of the rental expense associated with the property that is not used for Utility operations. Therefore, staff recommends a total reduction of $3,500 ($500 + $3,000).

Contractual Services-Other

Lighthouse included $5,606 in this account for its 2009 Consumption Use Permits. These permits are renewed every five years. Therefore, this expense should be amortized over a 5-year period. Thus, staff recommends Contractual Services-Other expense be reduced by $4,485.

Issue 12: Should an adjustment be made to the Utility's salaries and wages and pensions and benefits expenses?

Recommendation: Yes, adjustments should be made to reduce directors fees by $24,000 and pensions and benefits expense by $11,196. (Fletcher)

Staff Analysis: In its filing, the Utility recorded salaries and wages expense of $121,438 and pensions and benefits expense of $16,763. Staff believes adjustments are necessary as discussed below.

Salaries and Wages

Lighthouse recorded $42,000 for director fees during the test year. This represented $500 per month for 7 directors. This represents annual compensation of $6,000 per director. In response to a staff data request, the Utility stated that the director fees for the years 2003 to 2009 were determined by the directors themselves based what they thought was reasonable and what the Utility could afford. Lighthouse stated that there has always been at least one meeting per year, the annual meeting, for the shareholder and directors that is generally held in Port St. Joe. However, the Utility asserted that most directors were generally consulted monthly on general operational matters, unforeseen problems, and long-term planning.

Staff believes the number of directors is abnormally high given the size of Lighthouse. Further, staff believes it is atypical for the number of directors to be greater than the number of employees for an entity. The Utility has 3 employees and 7 directors. As such, staff recommends that the compensation for 4 directors be treated below the line. Thus, staff recommends that salary and wages be reduced by $24,000 ($6,000 x 4).

Pensions and Benefits

In response to a staff data request, the Utility stated that pensions and benefits expense during the test year were overpaid by $11,196. Lighthouse further stated that the overpayment was refunded in 2010. Based on the above, staff recommends that pensions and benefits expense for the test year be reduced by $11,196.

Issue 13: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $64,358. This expense should be recovered over four years for an annual expense of $16,089. Thus, Lighthouse's requested annual rate case expense should be reduced by $2,661. (Fletcher)

Staff Analysis: Lighthouse included rate case expense of $75,000 in its MFRs. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the amount necessary to complete the case.

Pursuant to Section 367.081(7), F.S., "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable." Also, it is a utility's burden to justify its requested costs.[3] Further, the Commission has broad discretion with respect to allowance of rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[4] As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed below for the current rate case. Based on our review, staff recommends several adjustments to the revised rate case expense estimate.

Legal

Lighthouse included $44,250 in its MFRs for legal representation from Messer, Caparello & Self. Subsequent to the filing of the MFRs, the Utility submitted actual and estimated rate case expense associated with legal services totaling $13,200. Based on a review of invoices for actual expenses, staff recommends an additional reduction of $575 related to MFR deficiencies be removed. Thus, staff recommends rate case expense related to legal services of $12,625 be recognized.

Consultant-Engineer

Lighthouse did not include an estimate in its MFRs for rate case expense for Preble-Rish, Inc. for engineering work. Actual invoices totaled $17,640 related to the original cost study submitted by the Utility in this case. As such, staff recommends these expenses be recovered.

Consultant-CPA

Lighthouse included $30,750 in its MFRs for Roberson & Associates, P.A. for accounting services. Actual and estimated rate case expense submitted by the Utility associated with these services totaled $37,493. However, based on a review of invoices for actual expenses, staff recommends that $6,900 relating to MFR deficiencies be removed. Thus, staff recommends rate case expense related to accounting services of $30,593 be recognized.

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[3] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).
[4] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

Conclusion

In summary, staff recommends that the Utility's revised rate case expense be decreased by $7,475. The appropriate total rate case expense is $64,358. A breakdown of rate case expense is as follows:

Table 13-1

Legal Fees	MFR B-10 Estimate	Actual	Additional Estimated	Staff Adjustments	Total
Horton	$44,250	$5,700	$ 7,500	($575)	$12,625
PSC Filing Fee	$0	$3,500	$0	$0	$3,500
Consultants					
Preble-Rish	$0	$17,640	$0	$0	$17,640
Roberson & Assoc.	30,750	35,993	1,500	(6,900)	30,593
Subtotal	$30,750	$53,633	$1,500	($6,900)	$48,233
Total Rate Case Expense	$75,000	$62,833	$9,000	($7,475)	$64,358

Based on Section 367.0816, F.S., the recommended annual rate case expense of $16,089 ($64,358/4) should be recovered over four years.

Issue 14: What is the test year water operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is $37,977. (Fletcher)

Staff Analysis: As shown on Schedule 3-A, after applying staff's adjustments, the Utility's net operating income is $37,977. Staff's adjustments to operating income are shown on Schedule 3-B.

REVENUE REQUIREMENT

Issue 15: What is the appropriate revenue requirement for the December 31, 2009 test year?

Recommendation: The following revenue requirement should be approved.

Test Year Revenues	$ Increase	Revenue Requirement	% Increase
$470,423	$53,934	$524,357	11.46%

(Fletcher)

Staff Analysis: Lighthouse requested revenue requirements designed to generate annual revenues of $644,664. This request represents a revenue increase of $172,300 or approximately 36 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a revenue requirement of $524,357. This represents a revenue increase of $53,934 or approximately 11.5 percent. The recommended pre-repression revenue requirement will allow the Utility the opportunity to recover its operating expenses and earn an 8.97 percent return on its investment.

RATE STRUCTURE AND RATES

Issue 16: What are the appropriate test year billing determinants?

Recommendation: The appropriate test year billing determinants are 16,280 bills, 17,316.5 ERCs and 70,773 kgals sold. (Lingo)

Staff Analysis: Lighthouse's MFR Schedules E-2 and E-14 reflect test year billing determinants of 16,280 bills (representing 17,316.5 ERCs) and 71,404 kgals sold. Lighthouse reported on its MFR Schedule F-1 (second revision) that in the spring of 2010, approximately 1,200 kgals were back-billed during portions of 2009 and 2010 due to billing errors in the software. This would seem to indicate that only a portion of those kgals were back-billed during 2009. However, a comparison of MFR Schedule F-1 to MFR Schedules E-2 and E-14 indicates that Lighthouse included the entire 1,200 kgals in the January – December 2009 test year. This error resulted in an overstatement of both test year kgals sold and test year revenues. The overstatement of test year kgals sold also results in an understatement of unaccounted for water.

Furthermore, in a June 9, 2011 meeting between Lighthouse, OPC, and staff, the Utility admitted that not all of the 1,200 kgals were attributable to the 2009 test year. As a result, staff requested customer-specific data from Lighthouse, including: a) the dates each back-billed customer was billed; b) the number of kgals on each back-bill; and c) the method used to determine the appropriate number of kgals to back-bill each customer. Lighthouse provided staff its response on June 14, 2011, including workpapers detailing, for each back-billed customer, how the back-billing was applied during the 2009-2010 periods for that customer. The key points of that response include: a) the total and monthly amounts of each customer's back-bill; b) 22 residential and 6 general service customers were back-billed a total of 1,200 kgals between the June 2009 to May 2010 period (therefore some of the back-billing was outside of the test year); and c) it took Lighthouse an average of 24 months (with time periods ranging from six months to forty-three months) to realize that a customer needed to be back-billed. Based on the foregoing, staff removed the entire 1,200 kgals test year adjustment made by the Utility so that the appropriate test year adjustments may be clearly reconstructed and made to the appropriate accounts.

Staff sent a series of data requests to the Utility to obtain information to better understand the factors driving the need to back-bill 1,200 kgals. In responses to these data requests, the Utility explained that their "drive by" meters read both mechanically and by transmitting the reading digitally. Many of the homes in the service area are unoccupied for extended periods of time, so an account with no usage billed for several months is common. When no usage is billed for an extended period of time, the Utility acquires the mechanical reading and reconciles that reading with the transmitted reading, and any difference is considered the total amount of non-billed usage.[5] The Utility considers six months with no usage normal, and anything beyond six months of no usage is investigated.[6] The Utility further explained that the back-billing was necessitated due to ("drive by") meters that were later discovered to be defective. As a result,

[5] Lighthouse Utilities Company, Inc., response to staff's sixth data request, question one.
[6] Lighthouse Utilities Company, Inc., response to staff's seventh data request, question one.

several customers received water but were not billed timely.[7] The "drive by" meter manufacturer replaced all digital meters at no additional cost to the Utility.[8] However, the Utility still finds meters that have stopped transmitting electronically.[9]

Although the Utility has stated that anything beyond six months of no usage is investigated, a review of the Utility's back-billing workpapers indicate that only one of the 28 back-billed customers had six months with an incorrect bill, while bills for the remaining 27 customers had been incorrect for periods of 16 to 43 months. In fact, the Utility's back-billing workpapers indicate that metering problems pre-date the 2009 test year for 23 out of the 28 back billed customers. Therefore, it appears that the Utility violates its own internal procedures for investigating meters indicating no usage.

Rule 25-30.350, F.A.C., titled "Backbilling" speaks directly to this issue. This rule states that a utility may not back-bill customers for any period greater than 12 months for any undercharge in billing which is the result of the utility's mistake. This makes it not only incumbent upon, but imperative for, water and wastewater utilities to be diligent in tracking down metering problems. Utilities must investigate metering problems at least once every 12 months in order to avoid understating kgals sold and incurring lost revenues if the billing problem existed for greater than 12 months. Unfortunately, since 27 out of the 28 back-billed customers had metering problems for longer than 12 months, Lighthouse needlessly lost revenues.

In order to calculate the appropriate number of kgals sold during the TY, staff assumed that the metering errors for the 28 back-billed customers were occurring on a pro rata basis for each month that the problem existed before being discovered. This means that the metering problems existed during the entire test year for 23 of the back-billed customers. The remaining five back-billed customers had metering problems during some portion of the test year. Staff's recommended adjustments to reflect corrected test year kgals sold and the recommended appropriate test year billing determinants are shown in Table 16-1 on the following page.

[7] Lighthouse Utilities Company, Inc., response to staff's fifth data request, question four (re: Office of Public Counsel's letter dated May 11, 2001.)
[8] Lighthouse Utilities Company, Inc., response to staff's seventh data request, question two.
[9] Lighthouse Utilities Company, Inc., response to staff's seventh data request, question one.

Table 16-1

LIGHTHOUSE UTILITIES COMPANY, INC.
DOCKET NO. 100128-WU
TEST YEAR ENDING DECEMBER 31, 2009

APPROPRIATE TEST YEAR BILLING DETERMINANTS

Customer Class	Bills	ERCs	TY Kgals Before Staff Adjs	Staff Adjs to Remove Incorrect MFR Kgals Back-billing	Staff Adjs to Reflect Corrected / Imputed TY Kgals	Appropriate Test Year Billing Determinants ERCs	Kgals
Residential	16,108	16,526.5	63,092	(882)		16,526.5	
					496		
					(117)		62,589
Multi-Residential	12	60.0	362			60.0	362
Commercial	76	124.0	515	(318)		124.0	
					196		
					(6)		387
Other	84	606.0	7,435			606.0	7,435
Totals	**16,280**	**17,316.5**	**71,404**	**(1,200)**	**568**	**17,316.5**	**70,773**

Source: Lighthouse Utilities Company, Inc., Minimum Filing Requirements, Schedule E-2 (second revision); Lighthouse's June 14, 2011 response to staff's informal data request from June 09, 2011 meeting.

Based on the foregoing and the adjustments in Table 16-1 above, the appropriate test year billing determinants are 16,280 bills, 17,316.5 ERCs and 70,773 kgals sold.

Issue 17: What is the appropriate water rate structure?

Recommendation: The appropriate rate structure for this Utility is a continuation of the BFC/uniform kgal charge rate structure. The revenue requirement increase should be allocated such that the resulting BFC cost recovery is 50 percent. (Lingo)

Staff Analysis: The Utility's current rate structure is the traditional BFC/uniform kgal rate structure. A customer using a 5/8" x 3/4" meter currently pays $14.60 per month, plus $3.07 for each kgal per month used. This rate structure has been in place since the Utility's inception. The Utility has a very seasonal customer base, with residential customers using an average of 3.8 kgals per month.

The Utility is located in Gulf County in the Northwest Florida Water Management District (NWFWMD or District). Lighthouse is not located in a Water Use Caution Area. However, the Utility's Consumptive Use Permit does require Lighthouse to "pursue the implementation of a rate structure that promotes water use efficiency and conservation while providing for a life-line initial rate and taking into consideration the water use characteristics of the service area".[10]

The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts).[11] A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.[12] The Commission follows the WMD guideline whenever possible.[13] In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the BFC portion of the bill usually should not represent more than 40 percent of the utility's total revenues.[14]

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[1] Northwest Florida Water Management District, Individual Water Use Permit No. 19830085, Attachment A.

[11] Florida Water Management Districts and Florida Public Service Commission, Memorandum of Understanding, June 27, 1991.

[12] Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

[13] Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC- 09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

[14] Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

Based on staff's test year revenues analysis in Issue 10, the Utility recovered approximately 54 percent of its test year revenues through the BFC. As discussed in Issue 15, staff's recommended revenue requirement represents an 11.46 percent increase over test year revenues. Furthermore, almost 25 percent of the Utility's residential bills are at zero consumption, while 65 percent of residential bills are at 3 kgals or less. These factors are indicative of a seasonal customer base.

In order to balance the often competing objectives of managing the cash flow concerns associated with a seasonal customer base versus the NWFWMD's desire to make the Utility's rate structure more water conservation oriented, staff recommends allocating $9,195 (or 17 percent) of the recommended revenue increase to the BFC such that the resulting charge is $15.13 per ERC. This represents an annual revenue recovery from the BFC of 50 percent. Staff recommends that the remaining revenue requirement increase of $44,739 (or 83 percent) be allocated to the kgal charge, resulting in a charge of $3.70.

Staff believes the recommended rate structure accomplishes two things. First, because the resulting BFC cost recovery percentage is 50 percent, the Utility should maintain an adequate fixed revenue stream to meet its going concern requirements. Second, by allocating 83 percent of the revenue requirement increase to the kgal charge, it will provide the Utility with a slightly greater incentive to more closely monitor its consumption billings, to avoid unnecessarily losing kgal charge revenues. Staff has presented the Utility's current and staff's recommended rate structures, plus two alternative rate structures, on the following page in Table 17-1.

Table 17-1

LIGHTHOUSE UTILITIES COMPANY, INC.
STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR THE WATER SYSTEM'S RESIDENTIAL CUSTOMERS
POST-REPRESSION ANALYSIS

Current Rate Structure and Rates BFC with uniform kgal chg		Recommended Rate Structure and Rates BFC with uniform kgal chg 83% of Rev Requirement Incr to Kgal Chg BFC = 50 percent	
BFC	$14.60	BFC	$15.13
All kgals	$3.07	All kgals	$3.70
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$14.60	0	$15.13
5	$29.95	5	$33.63
10	$45.30	10	$52.13
15	$60.65	15	$70.63
20	$76.00	20	$89.13
25	$91.35	25	$107.63
Alternative 1 BFC with uniform kgal chg 100% of Rev Requirement Incr to Kgal Chg BFC= 48 percent		**Alternative 2** BFC with uniform kgal chg BFC = 40 percent	
BFC	$14.60	BFC	$12.10
All kgals	$3.83	All kgals	$4.44
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$14.60	0	$12.10
5	$33.75	5	$34.30
10	$52.90	10	$56.50
15	$72.05	15	$78.70
20	$91.20	20	$100.90
25	$110.35	25	$123.10

Although staff's recommended rate structure does not comply with the WMDs' policy that no more than 40 percent of revenues should be recovered through the BFC, staff does not recommend setting the BFC recovery below 50 percent due to the seasonality of Lighthouse's customer base. The recommended rate structure shown in Table 17-1 is consistent with prior Commission decisions involving the BFC cost recovery percentage relative to a seasonal customer base.[15]

[15] Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; Order No. PSC-03-0845-PAA-WS, issued July 21, 2003 in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.; Order No. PSC-10-0606-PAA-WS, issued October 4, 2010, in Docket No. 090447-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities d/b/a Palm Valley Utilities; Order No. PSC-09-0618-PAA-WS, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

Therefore, the appropriate rate structure for this Utility is a continuation of the BFC/uniform kgal charge rate structure. The revenue requirement increase should be allocated such that the resulting BFC cost recovery is 50 percent.

Issue 18: Is a repression adjustment appropriate for this Utility, and, if so, what is the appropriate methodology to calculate a repression adjustment, and what are the appropriate resulting repression adjustments for this Utility?

Recommendation: No, a repression adjustment is not appropriate. However, in order to monitor the effect of the rate change, the Utility should be ordered to file 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 and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with 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. (Lingo)

Staff Analysis: A repression adjustment quantifies changes in consumption patterns in response to an increase in prices. Customers will reduce their non-essential consumption (i.e. outdoor irrigation, etc.) in response to price changes, while essential consumption (i.e. indoor uses such as cooking, cleaning, drinking, bathing, etc.) remains relatively unresponsive to price changes.

As discussed in Issue 17, almost 25 percent of the Utility's residential bills are at zero consumption, 65 percent of residential bills are at 3 kgals or less, and the average consumption per residential bill is approximately 3.8 kgal. These factors indicate a seasonal customer base with no significant amount of annual discretionary usage. In addition, as discussed in Issue 15, staff is recommending a revenue requirement increase of less than 12 percent. Therefore, staff does not recommend a repression adjustment in this case. This is consistent with prior Commission decisions involving a seasonal customer base and no significant discretionary usage.

However, in order to monitor the effect of the rate change, the Utility should be ordered to file 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 and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with 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.

Issue 19: What are the appropriate monthly rates for the Utility?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A. Excluding miscellaneous service charges, the recommended water rates produce revenues of $524,032. The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. 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 ten days after the date of the notice. (Lingo, Fletcher)

Staff Analysis: The appropriate revenue requirement, excluding miscellaneous service charges, is $524,032. As discussed in Issue 17, staff recommends that the appropriate rate structure is the continuation of the traditional BFC/uniform kgal charge rate structure for all classes, with the BFC cost recovery percentage set at 50 percent. As discussed in Issue 18, staff recommends that no repression adjustment be made. Applying these recommendations results in the final rates contained in Schedule 4-A. These rates are designed to recover annual revenues, excluding miscellaneous service charges, of $524,032.

The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. 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.

OTHER ISSUES

Issue 20: Should Lighthouse be authorized to revise its miscellaneous service charges?

Recommendation: Yes, Lighthouse should be authorized to revise its miscellaneous service charges. 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. The Utility should provide proof the customers have received notice within 10 days of the date that the notice was sent. The appropriate charges are reflected below.

Miscellaneous Service Charges

	Normal Hrs	After Hrs
Initial Connection	$21	$42
Normal Reconnection	$21	$42
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit	$21	$42

(Thompson)

Staff Analysis: The Utility's current miscellaneous service charges have not been updated in approximately 24 years when initially set in Docket No. 870627-WU. The costs for fuel and labor have risen substantially since that time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. In a case involving Southern States Utilities Inc., the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." [16] Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed.

In support of its request, the Utility provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

[16] See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996 in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

Table 20-1

During Business Hours		
Item:	Cost:	Description
Clerical ($8.65 X 0.1 hours)	$0.87	Record/process customer request for service
Clerical ($8.65 X 0.1 hours)	$0.87	Record/process request for service termination
Labor ($21.92 X 0.5 hours)	$10.96	Labor related to inspection and connection of service
Transportation ($21.92 X 0.75 hours)	$16.44	Travel time by employees
Computer Services	$0.87	Book-keeping for new customer data entry
Overhead ($22.23 X 0.1 hours)	$2.22	Indirect costs for office expenses, rent, insurance, etc.
Total	$32.23	
Proposed Charge	$21.00	

Table 20-2

After Business Hours		
Item:	Cost:	Description
Clerical ($12.98 X 0.1 hours)	$1.30	Record/process customer request for service
Clerical ($12.98 X 0.1 hours)	$1.30	Record/process request for service termination
Labor ($32.88 X 0.5 hours)	$16.44	Labor related to inspection and connection of service
Transportation ($32.88 X 0.75 hours)	$24.66	Travel time by employees
Computer Services	$1.30	Book-keeping for new customer data entry
Overhead ($33.35 X 0.1 hours)	$3.33	Indirect costs for office expenses, rent, insurance, etc.
Total	$48.33	
Proposed Charge	$42.00	

Staff recommends that Lighthouse be allowed to increase its miscellaneous service charges from $15 to $21 for work during business hours and from $15 to $42 for work after hours and from $10 to $21 for premises visits during work hours and from $10 to $42 for after hours premises visits. The current and recommended miscellaneous service charges are shown below.

Table 20-3

Miscellaneous Service Charges	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	$15	$21	$42
Normal Reconnection	$15	$15	$21	$42
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Premises Visit	$10	$10	$21	$42

In summary, Lighthouse should be authorized to revise its miscellaneous service charges. 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. The Utility should provide proof the customers have received notice within 10 days of the date that the notice was sent. The appropriate charges are reflected above.

Issue 21: Should the Utility's request for approval of a $5.25 late payment fee be granted?

Recommendation: Yes. The Utility's requested late fee of $5.25 should be approved. The late fee should be effective on or after the stamped approval date on the 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 within 10 days of the date of the notice. (Thompson)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility has requested a $5.25 late fee. The Utility's request for a late payment fee was accompanied by its reason for requesting the fee, as well as the cost justification required by Section 367.091, F.S.

This cost is comprised of employee time to research and verify that the payment is late, process the bill, and assess the late payment fee. Also, the $5.25 cost includes an envelope, printer and printing supplies, and postage to send the notice to the customer.

The late payment fee is designed to encourage customers to pay their bills on time and to ensure that the cost associated with late payment is not passed onto customers who do pay on time. The Utility's justification for the late fee is to place the burden of these costs on the cost causer rather than the general body of ratepayers. Staff believes the estimated cost provided by the Utility is reasonable.

Based on the above, staff recommends that the Utility's proposed late payment fee of $5.25 should be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

Issue 22: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. (Fletcher)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has the authority to establish, increase, or change a rate or charge. Lighthouse has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Lighthouse should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), F.S., the following fees may be assessed:

1.) $25, if the face value does not exceed $50,

2.) $30, if the face value exceeds $50 but does not exceed $300,

3.) $40, if the face value exceeds $300, or

4.) five percent of the face amount of the check, whichever is greater.

Staff recommends that Lighthouse's tariff for an NSF fee be approved consistent with the charges set by Sections 68.065(2) and 832.08(5) F.S. Approval of an NSF fee is consistent with prior Commission decisions.[17] As such, staff recommends that Lighthouse's proposed NSF fee be approved. This fee should be effective on or after the stamped approval date on the 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 within 10 days of the date of the notice.

[17] See Order Nos. PSC-11-0138-PAA-SU, pp. 11-12, February 28, 2011, in Docket No. 100326-SU, In re: Application for staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Co., Inc.; PSC-11-0113-PAA-WS, p. 9, issued February 11, 2011, in Docket No. 050192-WS, In re: Application for certificates to provide water and wastewater Service in Sumter County by Central Sumter Utility Company, L.L.C.; PSC-10-0407-PAA-SU, issued June 21, 2010, pp. 21-22, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood.

Issue 23: Should Lighthouse's service availability charges be revised?

Recommendation: Yes. Lighthouse's current system capacity charge should be discontinued and plant capacity and main installation charges of $157 and $843, respectively, should be approved. The Utility shall file revised tariff sheets which are consistent with the Commission's decision. Staff should be given administrative authority to approve the revised tariff sheets upon verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (Fletcher)

Staff Analysis: According to its current tariff, the Utility has an authorized system capacity charge of $1,000. In its filing, Lighthouse did not propose any change to its system capacity charge. A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the plant. A main installation charge represents the reimbursement by a developer or a customer to offset the cost of the lines.

When calculating service availability charges, staff believes it is more reasonable to have separate charges for the cost of plant and the cost of lines, instead of one system capacity charge. One reason for this delineation is to avoid a possible over-contribution by a customer. For instance, when a utility accepts donated lines from a developer and only has an authorized system capacity charge, this could create a situation in which a utility would not only accept the donated lines but also collect system capacity charges from customers for those lines that had been donated. Thus, a utility's contributions-in-aid-of-construction associated with the donated lines would essentially be accounted for twice, which would reduce a utility's rate base on an accelerated basis. To avoid this, staff believes it is prudent to discontinue the Utility's system capacity charge.

Based on the total recommended amount for transmission and distribution plant and the total plant capacity connections of 1,665, staff believes plant capacity and main installation charges of $157 and $843, respectively, are appropriate. Therefore, staff recommends that Lighthouse's current system capacity charge be discontinued, and plant capacity and main installation charges of $157 and $843, respectively, be approved.

The Utility shall file revised tariff sheets which are consistent with the Commission's decision. Staff should be given administrative authority to approve the revised tariff sheets upon verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

Issue 24: 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 rates should be reduced as shown on Schedule 4 to remove $20,277 of rate case expense grossed-up for regulatory assessment fees (RAFs). 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 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is $20,277. The decreased revenue will result in the rate reduction recommended by staff on Schedule 4.

The Utility should be required to 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 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Issue 25: 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, Lighthouse should provide proof, within 90 days of the final order in this docket, that the adjustments for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Fletcher)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lighthouse should provide proof, within 90 days of the final order in this docket, that the adjustments for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 26: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should 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. (Young, Fletcher)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should 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.

Lighthouse Utilities Company, Inc. — **Schedule 1-A**
Schedule of Water Rate Base — **Docket No. 100128-WU**
Test Year Ended 12/31/09

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$3,238,624	$0	$3,238,624	($255,714)	$2,982,910
2	Land and Land Rights	26,000	0	26,000	0	26,000
3	Non-used and Useful Components	0	0	0	(81,022)	(81,022)
4	Accumulated Depreciation	(1,119,296)	0	(1,119,296)	169,937	(949,359)
5	CIAC	(1,699,140)	0	(1,699,140)	0	(1,699,140)
6	Amortization of CIAC	673,701	0	673,701	0	673,701
7	Working Capital Allowance	48,400	0	48,400	(4,049)	44,351
8	**Rate Base**	$1,168,289	$0	$1,168,289	($170,847)	$997,442

	Lighthouse Utilities Company, Inc. Adjustments to Rate Base Test Year Ended 12/31/09	Schedule 1-B Docket No. 100128-WU
	Explanation	**Water**
	Plant In Service	
1	To reflect staff's recalculation of plant in service (Issue 3)	($282,561)
2	To remove contractual service that should be expensed (Issue 3)	(10,400)
3	To reflect appropriate amount of pro forma plant additions (Issue 4)	37,247
	Total	($255,714)
	Non-used and Useful	
	To reflect net non-used and useful adjustment (Issue 5)	($81,022)
	Accumulated Depreciation	
1	To reflect staff's recalculation of accumulated depreciation (Issue 3)	$169,430
2	To reflect appropriate amount of pro forma plant additions (Issue 4)	508
	Total	$169,937
	Working Capital	
	To reflect the appropriate amount of working capital. (Issue 6)	($4,049)

Lighthouse Utilities Company, Inc. **Schedule 2**
Capital Structure-Simple Average **Docket No. 100128-WU**
Test Year Ended 12/31/09

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
2	Short-term Debt	840,000	0	840,000	(15,711)	824,289	70.56%	8.06%	5.69%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	350,556	0	350,556	(6,556)	344,000	29.44%	21.29%	6.27%
5	Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$1,190,556	$0	$1,190,556	($22,267)	$1,168,289	100.00%		11.96%
Per Staff									
8	Long-term Debt	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
9	Short-term Debt	840,000	0	840,000	(136,251)	703,749	70.56%	8.06%	5.69%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	350,556	0	350,556	(56,862)	293,694	29.44%	11.16%	3.28%
12	Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
13	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$1,190,556	$0	$1,190,556	($193,113)	$997,443	100.00%		8.97%

	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	8.68%	9.27%

Lighthouse Utilities Company, Inc.
Statement of Water Operations
Test Year Ended 12/31/09

Schedule 3-A
Docket No. 100128-WU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$472,364	$172,300	$644,664	($174,241)	$470,423	$53,934	$524,357
							11.46%	
	Operating Expenses							
2	Operation & Maintenance	$387,200	$21,813	$409,013	($54,205)	$354,808	$0	$354,808
3	Depreciation	40,451	0	40,451	(10,415)	30,036	0	30,036
4	Amortization	241	0	241	0	241	0	241
5	Taxes Other Than Income	47,580	7,754	55,334	(7,973)	47,361	2,427	49,788
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	$475,472	$29,567	$505,039	($72,593)	$432,446	$2,427	$434,873
8	**Operating Income**	($3,108)	$142,733	$139,625	($101,648)	$37,977	$51,507	$89,484
9	**Rate Base**	$1,168,289		$1,168,289		$997,442		$997,442
10	**Rate of Return**	-0.27%		11.95%		3.81%		8.97%

	Lighthouse Utilities Company, Inc. Adjustment to Operating Income Test Year Ended 12/31/09	Schedule 3-B Docket No. 100128-WU
	Explanation	**Water**
	Operating Revenues	
1	Remove requested final revenue increase.	($172,300)
2	Reflect appropriate test year revenues. (Issue 10)	(1,941)
	Total	($174,241)
	Operation and Maintenance Expense	
1	Agreed upon audit adjustments. (Issue 2)	($13,299)
2	Contracted services that had been previously capitalized. (Issue 3)	10,400
3	Adjustment for excessive unaccounted for water. (Issue 5)	(5,465)
4	Adjustment to rental building. (Issue 11)	(3,500)
5	Reflect appropriate Contractual Services-Other. (Issue 11)	(4,485)
6	To adjust for appropriate amount of director fees. (Issue 12)	(24,000)
7	Adjustment to reflect overpayment in Employee Pensions. (Issue 12)	(11,196)
8	To reflect appropriate amount of Rate Case Expense. (Issue 13)	(2,661)
	Total	($54,205)
	Depreciation Expense - Net	
1	To reflect staff's recalculation of Depreciation Expense. (Issue 3)	($10,098)
2	To reflect appropriate amount of pro forma Depr. Expense. (Issue 4)	508
3	To remove net depreciation on non-U&U adjustment above. (Issue 5)	(824)
	Total	($10,415)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($7,841)
2	Agreed upon audit adjustments (Issue 2)	638
3	To reflect appropriate amount of pro forma TOTI. (Issue 4)	494
4	To remove net property taxes on non-U&U adjustment above. (Issue 5)	(1,264)
	Total	($7,973)

Lighthouse Utilities Company, Inc. **Water Monthly Service Rates** **Test Year Ended 12/31/09**				**Schedule 4** **Docket No. 100128-WU**
	Rates Prior to Filing	**Utility Requested Final**	**Staff Recomm. Final**	**4-year Rate Reduction**
<u>Residential, General Service and Multi-Family</u>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	$14.60	$19.90	$15.13	$0.59
1"	$36.51	$49.75	$22.70	$0.88
1-1/2"	$73.04	$99.53	$37.83	$1.46
2"	$116.86	$159.25	$75.65	$2.93
3"	$233.74	$318.52	$121.04	$4.68
4"	$365.20	$497.66	$242.08	$9.36
6"	$730.41	$995.33	$378.25	$14.63
8"	$1,168.66	$1,592.53	$1,361.70	$52.66
10"	$1,679.95	$2,289.27	$2,193.85	$84.85
Gallonage Charge, per 1,000 Gallons	$3.07	$4.18	$3.70	$0.14
	<u>Typical Residential Bills 5/8" x 3/4" Meter</u>			
3,000 Gallons	$23.81	$32.44	$26.23	
5,000 Gallons	$29.95	$40.80	$33.63	
10,000 Gallons	$45.30	$61.70	$52.13	