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State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 1, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Economics (Hudson, Roberts)
Division of Accounting and Finance (Fletcher, Maurey, Norris)
Division of Engineering (Ellis, Watts)
Office of the General Counsel (Gilcher)

RE: Docket No. 130025-WU – Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

AGENDA: 11/14/13 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 17 and 18 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 5-Month Effective Date Waived Through 11/14/13

SPECIAL INSTRUCTIONS: None

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Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,971 customers in Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District (SWFWMD) as a critical use area. The Utility's water rates were last established in its 2008 rate proceeding.[1] Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2012 annual report, the Utility reported operating revenues of $633,693 and a net operating loss of $24,183.

On April 23, 2013, Placid Lakes filed an application with the Florida Public Service Commission (Commission) for an increase in its rates and charges for water. Accompanying the Utility's application were minimum filing requirement schedules (MFRs) required by Section 367.081, Florida Statutes (F.S.), and Rule 25-30.437, Florida Administrative Code (F.A.C.).

The Utility had a few deficiencies in the MFRs. The deficiencies were corrected and June 4, 2013, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The historic test year established for final rates is the historical twelve-month period ended December 31, 2012. By Order No. PSC-13-0316-PCO-WU, the Commission suspended the final water rates proposed by the Utility to allow staff sufficient time to process this case. In its filing, the Utility requested a final revenue increase of $142,678 (22.49 percent).

On October 24, 2013, Placid Lakes filed an application for amendment of Certificate No. 401-W in Docket No. 130261-WU to add territory the Utility erroneously believed was already inside of its service area to its authorized service territory. The amendment will be addressed in Docket No. 130261-WU.

The original five-month statutory deadline for the Commission to address the Utility's requested final rates was October 29, 2013. However, by letter dated June 28, 2013, Placid Lakes waived the statutory time frame by which the Commission is required to address the Utility's final requested rates through November 14, 2013.

This recommendation addresses Placid Lakes' request for final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

[1] See Order No. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc.

Discussion of Issues

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

Recommendation: Yes. Placid Lakes is in compliance with Department of Environmental Protection (DEP) rules and regulations and the water treatment plant (WTP) is operating normally. The Utility appears to be responding adequately to the water quality concerns of its customers. Therefore, staff recommends that the overall quality of service provided by Placid Lakes be considered satisfactory. (Ellis, Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating: 1) the quality of the utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customer satisfaction. The rule further states sanitary surveys, outstanding citations, violations, and consent orders on file with the DEP and the county Health Department, over the preceding three-year period, shall be considered, along with input from the DEP and Health Department officials and consideration of customer comments and complaints.

Quality of Utility's Product and Operating Condition of the Utility's Facilities

As discussed in the case background, the Utility is located within the SWFWMD. The Utility's WTP consumptive use permit was last revised by SWFWMD on September 6, 2012, and will expire on September 6, 2022.

DEP conducted a sanitary survey of the WTP on September 20, 2012, and identified no deficiencies. DEP also conducted a compliance inspection of the WTP on April 23, 2013, and identified two minor deficiencies, including a well vent that was too close to a horizontal surface and shutoff valves that were not locked open. The Utility and DEP assert that these deficiencies have been resolved at this time.

Staff engineers conducted a field inspection of the Utility's service area on August 22, 2013. The water treatment system appeared to be operating normally and appeared well maintained. Based on the maintenance records and a visual inspection, the condition of the Utility's facilities appeared to be adequate.

Utility's Attempt to Address Customer Satisfaction

There were two complaints filed, regarding quality of service and improper billing, with the Commission's Customer Activity Tracking System during the past three years. A review of the customer complaints indicates that the Utility has resolved all of the complaints in a timely manner. A customer meeting was held on August 21, 2013, at Lake Placid High School in Lake Placid, Florida. Six customers attended the customer meeting, none of whom chose to speak. Staff has received no written comments.

Summary

Placid Lakes is in compliance with DEP and SWFWMD rules and regulations, and the WTP is operating normally. The Utility appears to be responding adequately to water quality concerns of its customers. Therefore, staff recommends the overall quality of service provided by Placid Lakes be considered satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to rate base agreed to by the Utility be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base as set forth in Table 2-1 below. (Norris)

Staff Analysis: Staff's audit report was released on July 24, 2013, and Placid Lakes' response was received on August 1, 2013. In its response to staff's audit report, the Utility agreed to all the audit findings and adjustments. Staff recommends that the adjustments set forth in Table 2-1 be made to rate base.

Table 2-1

Placid Lakes' Agreed to Audit Adjustments			
Audit Finding	Plant	Accum Depr.	Accum. Amort. of CIAC
Finding No. 2 - Plant Sample	($40,180)		
Finding No. 3 - Depreciation Expense and Accumulated Depreciation		$24,163	
Finding No. 5 - Accumulated Amortization. of CIAC			($17,622)
Total Adjustments	($40,180)	$24,163	($17,622)

Issue 3: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. The appropriate pro forma plant additions are $46,835. This results in a decrease of $148,493 from the Utility's requested amount. Corresponding adjustments should also be made to decrease accumulated depreciation by $5,568 and decrease depreciation expense by $10,170. Additionally, pro forma property taxes should be increased by $620. (Norris)

Staff Analysis: In its filing, the Utility requested pro forma plant additions of $195,328. The following table illustrates the pro forma plant additions requested.

Table 3-1

Pro Forma Plant Additions	Amount
Meter Replacement Program	$176,299
Meter Retirement from Program	(29,682)
Truck Replacement	22,030
Old Truck Retirement	(13,967)
New 4WD Truck	32,158
Replace Electrical Panel in Water Plant	17,586
Old Electrical Panel Retirement	(9,096)
Net Plant Additions	$195,328

Staff has reviewed the supporting documentation and the prudence of these pro forma plant additions and believes several adjustments are necessary as discussed below.

Meters

In its application, Placid Lakes included $176,299 to replace 582 meters that were over thirty years old. The Utility's adjusted plant-in-service balance included a reduction of $29,682 for the corresponding retirement of the meters. At a proposed rate of six meters per month, the replacement program would take approximately eight years to complete. Specifically, the Utility is seeking to replace the existing meters with radio read devices to meet the standards of its DEP required cross-connection program. Although more costly than standard water meters, radio read devices are capable of alerting any back-flow incident.

Placid Lakes previously made requests for meter replacements in its 2001 Limited Proceeding[2] and 2008 Rate Case.[3] The Commission approved 843 meter replacements in the 2001 Limited Proceeding but due to a lack of supporting documentation, the Commission denied the Utility's request for pro forma funding for the proposed meter replacement program in its 2008 Rate Case. According to work papers filed in the instant case, the Utility replaced only 373 of the 843 meters approved in the 2001 Limited Proceeding. This amounts to a completion rate

[2] See Order No. PSC-02-1657-PAA-WU, issued November 22, 2002, in Docket No. 011621-WU, In re: Petition for limited proceeding to implement an increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pg.6.
[3] See Order No. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc., pg. 6.

of 44 percent. In several data requests, the Utility cites a 70 percent replacement record. However, this calculation combines the replacement of existing meters with added touch-read devices (as outlined in its 2001 Limited Proceeding) and meters for new connections. Staff requested an explanation regarding the lack of completion of meter replacements approved and funded in the previous proceeding. In the 2001 Limited Proceeding, the Commission approved funding for the replacement of 843 of the approximately 1,400 meters the Utility requested and full recovery for a new generator and line loop extensions.[4] During its 2008 Rate Case, Placid Lakes stated that the Commission had "granted half of the funds requested" in its 2001 Limited Proceeding to complete all of its requested projects and that after it "spent the funds for the generator and the line extension ... any left went to meter replacement."[5] In the current case, in response to a staff data request, Placid Lakes explained that it would rely solely on operating revenues generated by this proceeding to fund the meter replacements.

Pursuant to Section 367.081(2), F.S., the Commission shall consider pro forma plant added within a reasonable time frame, not to exceed 24 months after the end of the test year unless a longer period is justified and approved by the Commission. Placid Lakes' demonstrated history with respect to its meter replacement program does not support an extended time frame. Therefore, the Utility should be granted 144 meters which equates to two years of replacements based on Placid Lakes' estimate of replacing six meters a month. Staff used the Utility's ratio of meters, meter boxes, and labor needed for the program in order to calculate the amount of pro forma plant required. The replacement of 144 meters totals $43,620. Due to this adjustment, plant should be reduced by $132,679.

In addition, corresponding adjustments should be made for the meter retirements. In the Utility's MFR work papers, the old meters were retired at $51 per meter for a total of $29,682. In response to a staff data request for supporting documentation, the Utility cited its 2001 Limited Proceeding as establishing the retirement amount. In Order No. PSC-02-1657-PAA-WU, the Commission established an average cost of $25 per meter and $26 per meter box. The Utility used the sum of $51 for every meter replaced regardless of whether the meter box was also replaced or not. In most cases, only the meter was replaced and the meter box was not affected. As a result, the Utility overstated the amount of replacement cost determined in the Limited Proceeding. Using the correct methodology, meter retirements for the 144 meters should be $4,848. As such, plant should be increased by $24,834 to reflect the correct amount of meter retirements.

In total, the adjustment associated with Placid Lakes' meter replacement program should result in a net $107,845 decrease to plant. In addition, corresponding adjustments should be made to increase accumulated depreciation by $17,963 and decrease depreciation expense $6,871, respectively.

<u>Trucks</u>

Placid Lakes also included two pro forma plant additions totaling $54,188 for two new trucks. One truck, at a cost of $22,030, is to replace an older truck of the same make and model.

[4] See Order No. PSC-02-1657-PAA-WU

[5] See DN-01348-09, pg 2

Accordingly, the Utility included an adjustment to plant for the retirement of the older truck in the amount of $13,967. The second truck costs $32,158 and would be the only truck with 4-wheel drive. Placid Lakes failed to provide an invoice or signed quote for either new truck in its original filing. The Utility responded to a staff data request by stating that it was waiting for Commission approval to purchase the vehicles. The Utility eventually decided to purchase the replacement truck and provided the invoice in response to a subsequent data request. It is Commission practice for water and wastewater utilities to require signed contracts or quotes, in absence of an actual invoice, for all pro forma plant improvements that are to be included in rate base for rate setting purposes.[6] Thus, plant should be reduced by $32,158 to reflect the lack of a signed contract or invoice for the second truck. As such, accumulated depreciation should be decreased by $3,033 and depreciation expense should be decreased by $3,033.

Electrical Panel Replacement

Placid Lakes also included $17,586 of pro forma plant to replace an electrical panel. It also included an adjustment of $9,096 to retire the existing panel. In its filing, the Utility included an unexecuted quote from an unnamed company to support this addition. Staff made several requests for an executed copy of a quote with the business' appropriate contact information. As with the new trucks, Placid Lakes explained that it was awaiting Commission approval in this rate case to move forward with the replacement. The Utility also failed to provide an official quote from the business. Due to the lack of appropriate support documentation for the electrical panel replacement, plant should be reduced by $8,490. Accordingly, accumulated depreciation should be decreased by $9,362 and depreciation expense should be decreased by $266.[7]

Summary

Based on the above, staff recommends that the appropriate amount of pro forma plant additions is $46,835. This represents a decrease of $148,493 ($107,845+$32,158+$8,490) from the amount requested by the Utility. Corresponding adjustments should be made to increase accumulated depreciation by $5,568 ($17,963-$3,033-$9,362) and decrease depreciation expense by $10,170 ($6,871+$3,033+$266). Placid Lakes did not make any provisions for property taxes related to the increase in pro forma plant. Thus, property taxes should be increased by $620.

[6] See Order No. PSC-94-1515-FOF-SU, issued December 8, 1994, Docket No. 940655-SU, In re: Application for a staff-assisted rate case in Citrus County by RHV Utility, Inc., p. 2.

[7] The Utility incorrectly retired the old panel in its original filing by subtracting it from accumulated depreciation, so it had to be added in order to remove the retirement in this adjustment.

Issue 4: What are the used and useful percentages of the water treatment plant, storage facilities, and distribution system?

Recommendation: Staff recommends that the WTP and storage facilities be considered 100 percent used and useful (U&U), and the water distribution system be considered 79.09 percent U&U, consistent with the previous rate case. Accordingly, water rate base should be increased by $8,574. Corresponding adjustments should be made to increase net depreciation expense by $425 and property tax expense by $193. (Ellis, Watts)

Staff Analysis: Placid Lakes has three wells rated at a combined capacity of 1,784,160 gallons per day (gpd), which are used to provide potable water. Raw water is treated with gaseous chlorine and an injection of sequestrant to address mineral build-up, and is then pumped into water storage tanks and subsequently to the water distribution system. The Utility provides service to approximately 1,971 customers.

In its application, the Utility asserts that the WTP and storage facilities are 100 percent U&U, and the water distribution system is 76.92 percent U&U. The Utility's methods and calculations in the current filing are discussed below.

Water Treatment Plant

Rule 25-30.4325, F.A.C., establishes the criteria for the U&U calculation for water treatment systems, including consideration for existence of storage capacity, fire flows, unaccounted for water, growth, and capacity limitations.

Placid Lakes has three active wells, with a total firm reliable well capacity of 729,600 gpd, based on the removal of the largest well. This value exceeds the Utility's permitted capacity from SWFWMD, which allows for an average 405,600 gpd capacity and a peak flow capacity of 474,800 gpd. Staff therefore selected the permitted peak flow capacity as the firm reliable capacity of the WTP.

Staff has also reviewed peak flow data, fire flows, unaccounted for water, and system growth. Staff selected the second-highest flow day as the peak flow day during the test year since the peak flow day was associated with a system leak. Fire flows are based on local Highlands County ordinances. Unaccounted for water is 5.5 percent, which is acceptable. Including growth, the final peak day demand is approximately 657,300 gpd.

The subsequent calculation, dividing the peak day demand by the firm reliable capacity of the WTP yields a result of 100 percent U&U, which is consistent with the U&U finding in the last rate case.

Storage

Rule 25-30.4325, F.A.C., also establishes the criteria for the U&U calculation for potable water storage facilities, including consideration of the peak demand and characteristics of the storage facility. Placid Lakes has two ground storage tanks with 150,000 gallons of capacity each, totaling 300,000 gallons of storage. As both tanks have bottom drains, they are considered

100 percent usable. As the calculated peak demand exceeds the total storage capacity of the Utility's tanks, the water storage facilities are 100 percent U&U, which is consistent with the U&U finding in the last rate case.

Water Distribution System

Traditionally, the distribution system is evaluated based upon the number of equivalent residential connections (ERCs) that the Utility is anticipated to serve, including a growth allowance, and the total number of ERCs the Utility's facilities is capable of serving. This traditional analysis of the distribution system would result in a 39.8 percent U&U based on 2,020 connected lots, a growth allowance of 29.5 ERCs, and 5,147 total lots.

In the last rate case, the distribution system was found to be 79.09 percent U&U, based upon a non-standard methodology. This methodology involves treating all mains larger than six inches in diameter to be transmission mains and therefore considered 100 percent U&U, and evaluating all smaller lines by comparing the number of connected lots to the number of lots capable of being served by the Utility. These percentages would then be multiplied by the original installed cost of the line. The sum of these values would then be compared to the total original installed cost of the distribution system, to generate a U&U percent value. The usage of connected lots versus ERCs is not materially different to this method, as the vast majority of customers are residential customers. Homes with private wells are excluded from these calculations. Staff would recommend to continue using this non-traditional methodology for Placid Lakes due to a lack of changed conditions in the service territory and to be consistent with previous Commission decisions.

The Utility has proposed in its filing to change this methodology to also treat (1) lines less than 10 percent connected be treated as 10 percent U&U, (2) lines with greater than 50 percent connections as 100 percent U&U, (3) lines with 0 connections be treated as 100 percent U&U, and (4) the line percentages be weighted not by the original installed cost by line and for the system as a whole, but by a standardized current cost by pipe diameter and length.

The Utility previously requested and the Commission rejected modifications (1) and (2). Therefore, staff recommends that (1) and (2) be rejected in this rate case. Staff also recommends against the adoption of (3), as it is similar to modification (1). Staff notes the original purpose behind adopting a non-traditional methodology was the great difference in age and cost of the distribution lines, making (4) redundant and unnecessary.

Therefore, staff recommends the continued use of the non-traditional methodology for this utility. Since there have been no significant changes to the system, staff recommends that the distribution system be considered 79.09 percent U&U in keeping with Commission precedent and policy. As a result of these U&U percentages, water rate base shall be increased by $8,574 to reflect that 20.91 percent of the distribution system is non-used and useful. Accordingly, corresponding adjustments shall be made to increase depreciation expense by $425 and property tax expense by $193.

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $65,694. This results in a reduction of $1,928 to the Utility's requested working capital allowance. (Norris)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operating and maintenance (O&M) expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. Staff has recommended adjustments to Placid Lakes' O&M expense. As a result, staff recommends that working capital of $65,694 be approved. This reflects a decrease of $1,928 to the Utility's requested working capital allowance of $67,622.

Further, as discussed in Issue 13, there is an alternative recommendation regarding the disallowance of all 401k plan costs. If the Commission were to approve this alternative recommendation, the fall-out recommended working capital would be $64,776, which represents a reduction of $2,846 to the Utility's requested working capital allowance of $67,622.

Issue 6: What is the appropriate rate base for the test year ended December 31, 2012?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2012, is $483,908. This results in a reduction of $181,053 to the Utility's requested rate base. (Norris)

Staff Analysis: Based on staff's recommended adjustments, the appropriate rate base is $484,826. In its MFR's, the Utility requested a rate base of $665,879. Staff's adjustments recommended in the preceding issues resulted in a decrease of $181,053. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

Further, as discussed Issue 13, there is an alternative recommendation regarding the disallowance of all 401k plan costs. If the Commission were to approve this alternative recommendation, the fall-out recommended rate base would be $483,908, which represents a reduction of $181,971 to the Utility's requested rate base of $665,879.

COST OF CAPITAL

Issue 7: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.19 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Norris)

Staff Analysis: The Utility requested an ROE of 8.79 percent. Although the Utility correctly utilized the current leverage formula, staff recommends certain adjustments to the Utility's capital structure as discussed in Issue 8. These adjustments result in a lower equity ratio for the test year and thus a higher recommended ROE. Based on the Commission leverage formula currently in effect, the appropriate ROE is 10.19 percent. [8] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[8] See Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-WS, issued July 8, 2013, in Docket No.130006-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), Florida Statutes.

Issue 8: 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, 2012?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2012 is 6.19 percent. (Norris)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 8.62 percent. However, staff believes there are adjustments that should be made to the Utility's capital structure.

Long-Term Debt

Placid Lakes made an adjustment to the MFR's on Schedule D-2 to move "Advances from Associated Companies," totaling $466,095, from its long-term debt balance into common equity for rate setting purposes. On MFR Schedule D-5, the Utility noted that it does not make regular payments of principal or interest on two of the four loans from its parent company, LPHC. However, in response to a staff data request, the Utility clarified that it does make regular payments of principal and interest to LPHC on the remaining two loans. Each of these loans has a corresponding cost rate (3 percent) and definitive terms listed on MFR Schedule D-5. The Commission has previously held that long-term debt from "associated companies" with no regular payments of interest or principal should be treated as common equity.[9] Thus, the two debt instruments with regular payments, totaling $288,336, should remain in long-term debt. Long-term debt should be reduced by $192,262 and equity increased by $192,262 to reflect "Advances from Associated Companies" for two loans for which no regular payments of interest or principal payments are being made.

Another adjustment was made regarding debt issued from Ford Credit. In the breakdown of debt on MFR Schedule D-5, the Utility listed a loan from Ford Credit with a maturity date of September 2013 and an interest rate of 9.06 percent associated with the truck that was replaced. Because the truck was retired, the associated loan should be removed from the balance of long-term debt. In addition, the balance should be increased to include the newest loan issued from Ford Credit for the purchase of the replacement truck discussed in a previous issue. The loan is for $19,679 and has an interest rate of 6.74 percent.

Overall, the combined adjustments result in a net increase of $304,243 to the Utility's balance of long-term debt in its requested capital structure. Replacement of the loan balance and cost rate associated with the retired truck with the loan balance and cost rate associated with the newly acquired truck, as well as the adjustment to retain the 3 percent related-party loan in debt rather than in common equity results in a decrease to the overall average cost of debt.

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[9] See Order No. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc., p. 5.

Accumulated Deferred Income Taxes

Placid Lakes did not reflect any deferred income taxes on MFR Schedule D-1. In response to a staff data request, the Utility acknowledged it incorrectly left out deferred taxes.

To establish the balance of the Utility's deferred income taxes, it established a net credit of $125,443 by taking the difference in total accumulated depreciation from its tax and book balances. An initial adjustment is necessary to reduce its tax balance of accumulated depreciation by $55,356 to reflect the accumulated depreciation from its wastewater plant and an audit adjustment for transportation equipment. This reduction decreases the credit deferred taxes to $104,613.

The Utility then took the difference of the 2012 balances of Contribution in Aid of Construction (CIAC) and accumulated amortization of CIAC balances for a net debit deferred taxes of $287,599. However, since 1996, the tax code treats CIAC as nontaxable with the exception of meter installation fees and fees for service laterals. Based on discussions with the Utility, it has never elected to treat CIAC as nontaxable. The tax benefits of the current treatment of CIAC inure to the benefit of ratepayers. This benefit should be maintained in ratemaking procedures regardless of the Utility's decision. As such, with the exception of meters and services, staff used the Utility's 1996 annual report to reduce its balances of CIAC and accumulated amortization of CIAC to reflect the nontaxable treatment established in the Small Business Job Protection Act of 1996. Moreover, staff calculated the incremental taxable amount of meters and services from 1996 through the 2012 test year. This resulted in a debit of $69,188.

As previously discussed, the recommended pro forma plant net of retirements is $46,835. Staff used specific regulatory depreciation rates and appropriate tax depreciation expense to determine the deferred income taxes resulting from the recommended pro forma plant. Accordingly, staff recommends a corresponding increase to credit deferred taxes of $7,041 associated with the recommended pro forma plant.

The above adjustments to deferred income taxes result in a net credit of $42,466 ($104,613-$69,188+$7,041) or a tax liability. Pursuant to Rule 25-30.433(3), F.A.C., only U&U deferred income taxes can be included for ratemaking purposes. Applying the gross U&U plant ratio of 90.33 percent results in a total net credit of $38,358 ($42,466 x 90.33 percent).

Summary

Based upon the recommended components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2012, the weighted average cost of capital is 6.19 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Further, as discussed subsequently, there is an alternative recommendation in Issue 13 regarding the disallowance of all 401k plan costs. If the Commission were to approve this alternative recommendation, the fall-out weighted average cost of capital is 6.18 percent.

NET OPERATING INCOME

Issue 9: What is the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenues for Placid Lakes is $658,924. (Roberts)

Staff Analysis: Placid Lakes recorded total revenues of $634,468 for the test year. The Utility's total revenues consisted of $628,045 for service revenues and $6,423 for miscellaneous revenues. Based on staff's review of Placid Lakes' billing determinants and the rates that were in effect during the test year, staff recommends adjustments to test year service revenues. By applying the rates in effect during the test year to test year billing determinants, it results in test year service revenues of $643,290. Staff has increased test year service revenues by $15,245 ($643,290-$628,045). Moreover, Placid Lakes had a rate change during the test year. Therefore, staff has annualized test year revenues using the rates in effect at the end of the test year. This results in an increase of $8,021 to test year service revenues. Test year service revenues should be $651,311 ($628,045 + $15,245 + $8,021).

The Utility recorded $6,423 in miscellaneous revenues. However, miscellaneous revenues should be decreased by $330 to remove a backflow preventer. The Utility requested the approval of revised miscellaneous service charges in Issue 16. Staff believes these charges are prudent and reasonable. Therefore, miscellaneous revenues should be increased by $1,520 to reflect the incremental increase in miscellaneous service charges. The appropriate test year miscellaneous revenues should be $7,613 ($6,423 - $330 + $1,520). Based on the above, the appropriate test year revenues are $658,924 ($651,311 + $7,613).

Issue 10: Should the audit adjustments to operating expenses agreed to by the Utility be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to operating expenses as set forth in Table 10-1 below. (Norris)

Staff Analysis: Staff's audit report was released on July 24, 2013, and Placid Lakes' response was received on August 1, 2013. In its response to staff's audit report, the Utility agreed to all the audit findings and adjustments. Staff recommends that the adjustments set forth in Table 10-1 be made to operating expense.

Table 10-1

Placid Lakes' Agreed to Audit Adjustments			
Audit Finding	O&M Expense	Depr. Expense	Taxes Other Than Income (TOTI)
Finding No. 3 - Depreciation Expense and Accumulated Depreciation		($2,265)	
Finding No. 4 - Purchased Power	$1,874		
Finding No. 8 - Taxes Other than Income			$2,142
Total Adjustments	$1,874	($2,265)	$2,142

Issue 11: Should further adjustments be made to the Utility's O&M expense?

Recommendation: Yes. O&M expenses should be decreased by $3,389 to reflect reductions in two O&M expense accounts, Transportation expense and Contractual Services-Engineering expense. (Norris)

Staff Analysis: Based on its review, staff recommends that adjustments be made to O&M expense which relate to Transportation expense and Contractual Services-Engineering expense.

Transportation Expense

On MFR Schedule B-5, Placid Lakes recorded Transportation expense of $3,195 for the month of August 31, 2012. This amount was more than double the average monthly expense. In response to a staff data request, the Utility cited two major truck repairs that drove up Transportation expense that month. Instead of providing actual invoices for the repairs, the Utility included two "Preliminary Estimates" that were for trucks not listed on its vehicle fleet. In addition, both estimates listed the balance as completely covered by insurance. In response to a subsequent staff data request, the Utility failed to provide any actual invoices or an explanation regarding insurance coverage for the repairs. The Utility did explain that the truck belongs to its parent company, LPHC, and that Placid Lakes exclusively uses the truck for Utility purposes. Due to lack of support documentation for the repairs, Transportation expense should be reduced by $1,989

Contractual Services-Engineering Expense

MFR Schedule B-7 shows that expenses for Contractual Services-Engineering increased 100 percent since the Utility's last rate case in 2008. The Utility stated that the reason for the increase was due to the timing of its water permit renewal. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. Therefore, Contractual Services-Engineering expense should be reduced by $1,400 (4/5 of the total, $1,750) to properly reflect the annual amount over the five-year amortization period.

Summary

Based on the above, staff recommends that O&M expense be reduced by $3,389 ($1,989+$1,400) to reflect the appropriate level of expenses for transportation and Contractual Services-Engineering.

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

Recommendation: The appropriate amount of rate case expense is $42,222. This expense should be recovered over four years for an annual expense of $10,556. Therefore, annual rate case expense should be reduced by $9,465 from the amount requested in the Utility's initial filing. (Norris)

Staff Analysis: In its filing, Placid Lakes requested $80,080 for current rate case expense with a four-year amortization amount of $20,020. Over the course of the case, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The Utility submitted a revised estimated rate case expense, as of October 7, 2013, through completion of the PAA process of $67,720. The following table illustrates the Utility's requested rate case expense:

Table 12-1

	MFR B-10 Estimated	Actual	Additional Estimated	Revised Total
LPHC In-House Employee Fees				
Accounting-L. King	$24,750	$26,290	$4,620	$30,910
Operational/Administrative-P. Brewer	6,600	6,600	0	6,600
In house-C. Conklin	480	480	0	480
Legal-M. Friedman	40,250	13,265	8,465	21,730
PSC Filing Fee	4,000	4,000	0	4,000
Legal/Customer Notices	2,250	2,250	0	2,250
Print, copy and bind MFR's	1,750	1,750	0	1,750
Total	$80,080	$54,635	$13,085	$67,720

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Placid Lakes' rate case expense estimate are appropriate.

LPHC In-House Fees

The first two adjustments to rate case expense are based on two employees who split their time between the Utility and its parent company, LPHC. On MFR Schedule B-10, the Utility categorized each consultant working on the rate case according to his/her vendor or firm. Both Mr. King and Ms. Brewer were listed as consultants of LPHC. In response to a staff data request, the Utility provided a description of duties for both employees in their capacity at Placid Lakes and clarified their pay compensation. Staff also requested support documentation for both employees regarding their time and fees associated with work on the rate case.

Mr. King's duties for Placid Lakes include preparing MFRs for rate case proceedings. Mr. King is paid an hourly wage and evenly splits his time between the Utility and LPHC for a total of 72 hours a month (36 hours per month at each company). The Utility provided its timesheets, LPHC timesheets, and LPHC invoices supporting his work on the rate case. Given that there is no allocation of Mr. King's wages from LPHC to the Utility, it is appropriate to treat LPHC fees as consultant expense. However, staff recommends Mr. King's fees be decreased \$1,320 to reflect the 24 hours related to correct MFR deficiencies. In addition, staff recommends that Mr. Kings' fees be decreased by \$9,460 because they are already captured in employee salaries and wages. Using the percentage of actual rate case hours Mr. King worked as an employee of the Utility, staff recommends his estimated fees be reduced by \$1,662. Therefore, Mr. King's fees should be decreased by a total of \$12,442 (\$1,320+\$9,460+\$1,662).

Ms. Brewer's job description at Placid Lakes does not include any specific work on rate case proceedings, and she is a salaried employee at both the Utility and LPHC. In response to a staff data request, the Utility clarified that the expenses associated with Ms. Brewer's rate case work were billed from LPHC. It stated that all of her time allocated to the Utility was completely taken performing day-to-day operations, so she had to use portions of her time as an LPH employee to work on the rate case. Staff requested support documentation multiple times to verify her fees as an employee of LPHC. The Utility's only response was that she did not have timesheets as a salaried employee. Regardless of her pay structure, LPHC invoices should be provided, just as they were for Mr. King, to document fees billed from LPHC. In absence of support documentation, Ms. Brewer's fees should be entirely disallowed and rate case expense reduced by \$6,600.

Legal Fees and Costs

The third adjustment to rate case expense is to remove ineligible and duplicative legal expenses. In the Utility's update of actual legal fees and costs, fees associated with work on the Utility's MFR deficiencies (\$490) and Commission filing costs (\$3,500) were noted, but not removed. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[10] In addition, the Utility's total of actual fees and costs is \$486 higher than the invoices provided. Thus, legal fees and costs should be reduced by this amount to remove the unsupported amount. Placid Lakes also noted in its last estimate that the attorney's fees and costs associated with the Agenda Conference could possibly be reduced due to the fact that he is also handling another rate case at the same Agenda Conference. With scheduling fairly certain at this point, legal fees and costs associated with the Agenda Conference should be reduced by half or \$2,625. This is the approximate reduction suggested by the attorney in the Utility's estimate. In total, legal fees and costs should be reduced by \$7,356 to reflect these adjustments.

[10] See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Filing Fees

The fourth adjustment relates to the filing fee for this case. In its filing, Placid Lakes reflected a filing fee of $4,000, but the actual filing fee required and paid was $3,500. Thus, the filing fee should be reduced by $500.

Customer and Legal Notices

Placid Lakes initially included expenses of $2,250 for customer and legal notices. In its update of rate case expense, the Utility reflected no actual charges incurred or additional estimated costs for notices. Placid Lakes is responsible for sending three notices: the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. Using Commission-approved estimates for envelopes, postage, and copying, the total cost estimated for customer notices and postage is $3,650. Accordingly, staff recommends rate case expense be increased by $1,400 ($3,650-$2,250).

Summary

Based upon the adjustments above, staff recommends that Placid Lakes' revised rate case expense of $67,720 be decreased by $25,498 for a total of $42,222. A breakdown of rate case expense is as follows:

Table 12-2

	MFR Estimated	Utility Revised Actual and Estimated	Staff Adjustments	Total
LPHC In-House Employee Fees				
Accounting-L. King	$24,750	$30,910	($12,442)	$18,468
Operational/Administrative-P. Brewer	6,600	6,600	(6,600)	0
In house-C. Conklin	480	480	0	480
Legal-M. Friedman	40,250	21,730	(7,356)	14,374
PSC Filing Fee	4,000	4,000	(500)	3,500
Legal/Customer Notices	2,250	2,250	1,400	3,650
Print, copy and bind MFR's	1,750	1,750	0	1,750
Total	$80,080	$67,720	($25,498)	$42,222
Annual Amortization	$20,020			$10,555

The recommended total rate case expense above should be amortized over four years, pursuant to Section 367.081(6), F.S. Based on the above, staff recommends that annual rate case expense be reduced by $9,465 ($20,020-$10,555).

Issue 13: Should the Commission approve any pro forma expense items for the Utility?

Primary Recommendation: Yes. Pro forma expenses of $18,896 should be approved. Accordingly, O&M expense should be decreased by $4,439. Further, Placid Lakes should be required to file an affidavit with the Commission, no later than March 31, 2014, attesting that it has implemented its 401k program. Should Placid Lakes be unable or unwilling to implement the 401k program by March 31, 2014, staff will file a recommendation addressing the appropriate action to be taken. (Bulecza-Banks)

Alternative Recommendation: Yes. Pro forma expenses of $11,553 should be approved. Accordingly, O&M expense should be decreased by $11,782. (Fletcher, Norris)

Staff Analysis: Placid Lakes requested several pro forma expense items in its filing. Staff reviewed the support documentation for the requested pro forma expenses and believes there are necessary adjustments for only Contractual Services-Other and Employee Pensions & Benefits expenses. The following table illustrates the pro forma O&M expenses requested:

Table 11-1

Pro Forma O&M Expenses	Amount
Contractual Service-Testing	$1,300
Contractual Services-Other	3,407
Salaries & Wages	7,078
Employee Pensions & Benefits	10,682
Chemicals	868
Total Water Additions	$23,335

Contractual Services-Other Expense

Placid Lakes requested an increase of $3,407 to normalize the expense associated with tank maintenance performed every five years. In its filing, the Utility included executed proposals and invoices to document tank maintenance expenses totaling $51,231. In response to a subsequent staff data request, the Utility updated proposals with actual invoices to provide a final cost of $45,731 which equates to an annual amortization amount of $9,146 over a 5-year period. As a result, the Utility's increase of $2,307 is necessary to normalize the maintenance expenses ($9,146 less actual 2012 amortization of $6,839). Thus, Contractual Services-Other should be reduced by $1,100 to reflect the appropriate normalization adjustment.

Employee Pensions & Benefits Expense

Placid Lakes also proposed an increase of $10,682 to Employee Pensions and Benefits expense for the addition of an employee 401k plan. Specifically, the requested amount includes $2,165 of third party administrator costs and $8,517 based on a matching expense equal to 3 percent of the employees' salaries. The Utility provided a detailed proposal of the plan from a third party provider; however, it was unexecuted. In response to a staff data request for an executed proposal, the Utility stated that the proposed plan would not be adopted until it was approved in the current rate case. Even though the Utility believes that all of its employees will take advantage of the proposed 401k matching program to the full extent possible, Placid Lakes acknowledged that, without prior history, it is impossible to predict the matching expense.

Primary Staff:

Small water and wastewater utilities historically have been hindered from offering pension and benefits plans to their employees as they have been unable to fund such programs in advance of obtaining Commission-approved funding. Primary staff believes that it is imperative for small water and wastewater utilities to offer pension and benefit programs to attract and retain quality employees. To provide small water and wastewater utilities the opportunity to establish pension and benefit programs will require the inclusion of pro forma adjustments.

The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) states that employee pension and benefits shall include all accruals under pension plans to which the Utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits, or insurance. The Commission has denied the funding of a pension and benefit plan in the past. The pension plan proposed by Gold Coast Utility Corp. was denied because the Commission did not believe that contributions to employees' Individual Retirement Accounts (IRAs) met the requirements of the USOA.[11] Primary staff believes that Placid Lakes' proposed plan comports to the requirements set forth in the NARUC USOA. Under the proposed plan, the Utility will match employee contributions up to 3 percent of wages and Placid Lakes cannot renege on its required contributions as it is a defined plan administered by a third-party.

Primary staff does recognize that projecting the degree of employee participation is difficult. However, support calculations provided by Placid Lakes indicate that the Utility projects it will be required to make the maximum 3 percent matching contribution, which equates to $8,517. Recordkeeping and Reporting Fees assessed by the third party administrator total $1,665. In addition, there is a one-time installation fee of $500. Placid Lakes' total request for its 401k proposal is $10,682.

Primary staff believes that a more conservative participation rate is appropriate. As projected by the Utility, employees' monthly contribution will range from $52 to $160. The average salary and projected average monthly contribution are $23,658 and $89, respectively. Primary staff believes that based on average salaries of the employees, it may be overly optimistic to believe these employees will be able to contribute the maximum 3 percent. As such, primary staff believes that a 2 percent contribution would be more reasonable. Applying a 2 percent contribution rate results in a matching contribution for Placid Lakes of $5,678. In addition, as the administrative costs for Recordkeeping and Reporting Fees are not dependent on the employee and/or employer contribution level, the fee quoted by the third party administrator of $1,665 is appropriate.

[11] See Order No. PSC-07-0609-PAA-WS, issued July 30, 2007, in Docket No. 060246, In re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.

The final component of the projection relates to the one-time installation fee of $500. While primary staff believes such a fee would warrant pro forma recovery, if amortized, in this case, primary staff believes it would be more appropriate to require Placid Lakes to fund this fee by recording the expense below the line. Historically, Placid Lakes has been granted monies by the Commission for plant and expenses for which it did not ultimately expend.[12] Primary staff believes that based on past behavior, Placid Lakes should be required to show its commitment to the pension program.

Based on the above discussion, primary staff believes the appropriate amount to include for Placid Lakes' 401k expense is $7,343. ($5,678+$1,665) In addition, primary staff recommends that Placid Lakes should be required to file an affidavit with the Commission, no later than March 31, 2014, attesting that it has implemented its 401k program. Should Placid Lakes be unable or unwilling to implement the 401k program by March 31, 2014, staff will file a recommendation addressing the appropriate action to be taken.

Alternative Staff:

Unlike smaller Class C utilities that can avail themselves of staff-assisted rate cases, Placid Lakes has been a Class B utility for over 16 years. Although employee benefits like a deferred compensation plan benefit could help retain or attract quality employees, alternative staff believes there are several reasons in this instant case not to allow the Utility's requested 401k plan costs at this time. First, the Utility has not met its burden for this requested expense. Ultimately, it is the Utility's burden to justify its requested costs.[13] As with many utility proposed pro forma plant and expense items, staff requests a copy of executed contracts, bids, proposals, and/or quotes.[14] Placid Lakes failed to provide an executed proposal with the third party administrator.

Second, Placid Lakes acknowledged that it is impossible to predict the matching expense of employee contributions. Ratemaking is prospective in nature, and it is Commission practice to make known and measurable changes.[15] As such, alternative staff believes any proposed allowance of 401k plan costs would be somewhat arbitrary because there is no way to accurately account for what the employee contributions would be without any history.

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[12] See Order No. PSC-02-1657-PAA-WU, issued November 22, 2002, in Docket No. 011621-WU, In re: Petition for limited proceeding to implement an increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pg. 6 and Document No. 04818-13, filed August 16, 2013, Response to Question 9e, pg. 5.

[13] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

[14] See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, pp. 9-10; PSC-05-0624-PAA-WS, issued June 7, 2005, In Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., p. 8; and PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc., p. 26;

[15] See Order Nos. PSC-12-0179-FOF-EI, issued April 3, 2012, in Docket No. 110138-EI, In re: Petition for increase in rates by Gulf Power Company, pp. 11-12; PSC-11-0199-PAA-WU, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC, p. 9; and PSC-08-0622-PAA-WS, issued September 24, 2008, in Docket No, 060540-WU, In re: Application for increase in water rates in Pasco County by Colonial Manor Utility Company, p. 10.

Third, alternative staff does not believe 401k plan costs should be allowed without the initial up-front costs being incurred by the Utility because Placid Lakes has been previously granted monies that it did not ultimately expend. Placid Lakes and its parent company made a business decision not to fund the initial start-up costs of the proposed 401k plan. With the quality of service remaining satisfactory, alternative staff would note that the Utility was able to fund the up-front approved legal rate case expenses of $23,315 in its last rate case which represents more than double the requested 401k plan costs of $10,862.

Based on the above, alternative staff recommends that Employee Pensions and Benefits expense of $10,682 should be disallowed.

Conclusion

Based on the above, primary staff recommends pro forma expenses of $18,896 should be approved. Accordingly, O&M expense should be decreased by $4,439. All other requested pro forma expenses not discussed were verified with support documentation. Further, Placid Lakes should be required to file an affidavit with the Commission, no later than March 31, 2014, attesting that it has implemented its 401k program. Should Placid Lakes be unable or unwilling to implement the 401k program by March 31, 2014, staff will file a recommendation addressing the appropriate action to be taken.

Based on the above, alternative staff recommends pro forma expenses of $11,553 ($23,335-$11,782) should be approved. All other requested pro forma expenses not discussed were verified with support documentation.

Issue 14: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved.

	Test Year Revenue	$ Increase	Revenue Requirement	% Increase
Water	$658,924	$42,166	$701,090	6.40%

(Norris)

Staff Analysis: In its filing, Placid Lakes requested a revenue requirement to generate annual revenue of $777,146. This requested revenue requirement represents a revenue increase of $142,678, or approximately 22.49 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 $701,090. The recommended revenue requirement exceeds staff's adjusted test year revenue by $42,166, or 6.40 percent. The recommended pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 6.19 percent return on its investment in rate base. The computation of the revenue requirement is shown on Schedule No. 3-A and staff adjustments to operating income are shown on Schedule No. 3-B.

Further, as discussed in Issue 13, there was an alternative recommendation regarding the disallowance of all 401k plan costs. If the Commission were to approve that alternative recommendation, the fall-out recommend revenue requirement would be $693,303. This represents a revenue increase of $34,379 or 5.22 percent. The recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 6.18 percent return on its investment in rate base.

RATES

Issue 15: What are the appropriate rate structure and rates for the Utility's water system?

Recommendation: The appropriate rate structure for the water system's residential customers is a continuation of the base facility charge (BFC) and three tier inclining block rate structure. The usage blocks should be: a) 0-10,000 gallons; b) 10,001-20,000 gallons; and c) usage in excess of 20,000 gallons, and usage block rate factors of 1.0, 1.5, and 2.0. The appropriate rate structure for the water system's general service customers is a continuation of the BFC and uniform gallonage charge. Staff recommends an across-the-board increase of 6.47 percent to existing rates.

The appropriate monthly water rates are shown on Schedule No. 4. 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 on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

Staff Analysis: Placid Lakes' water system is located in Highlands County within the SWFWMD. The Utility's water system provides service to 1,948 residential and 23 general service customers. Approximately 10 percent of the residential customer bills during the test year had zero gallons that indicating the customer base is not seasonal. The average residential water demand during the test year was 3,544 gallons per month, which is a 15 percent decrease since the Utility's last rate case.

Currently, the Utility's water system rate structure consists of a BFC and three tier inclining block rate structure for residential customers. The rate blocks are: (1) 0-10,000 gallons; (2) 10,001-20,000 gallons; and (3) usage in excess of 20,000 gallons, with usage block rate factors of 1.00, 1.50, and 2.00, respectively. There is no non-discretionary usage block set for this Utility. General service customers are billed a BFC and a uniform gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) produce revenue of $693,477, which is the recommended revenue requirement of $701,090 less miscellaneous revenues of $7,613; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

It is Commission practice to establish a non-discretionary usage threshold for restricting repression. However, in this instance, the recommended rate increase is relatively low and would not warrant a repression adjustment. Due to the low revenue requirement increase percentage coupled with the low average consumption, staff recommends that the recommend percentage increase be applied as an across-the-board increase to the existing service rates. To determine the appropriate percentage increase to apply to service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is shown below.

		Water
1.	Total Test Year Revenues	$658,924
2.	Less: Miscellaneous Revenues	$ 7,613
3.	Test Year Revenues from Service Rates	$651,311
4.	Revenue Increase	$ 42,166
5.	% Service Rate Increase (Line 4/Line 3)	6.47%

Based on the above, the appropriate rate structure for the water system's residential customers is a continuation of the BFC and three tier inclining block rate structure. The usage blocks should be: a) 0-10,000 gallons; b) 10,001-20,000 gallons; and c) usage in excess of 20,000 gallons, and usage block rate factors of 1.0, 1.5, and 2.0. The appropriate rate structure for the water system's general service customers is a continuation of the BFC and uniform gallonage charge. Staff recommends an across-the-board increase due to the low revenue requirement of 6.47 percent to existing rates. If the Commission were to approve the alternative staff recommendation, the existing rates should be increased by 5.28 percent across-the-board.

The appropriate monthly water rates are shown on Schedule No. 4. 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 on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

OTHER ISSUES

Issue 16: Should Placid Lakes' requested miscellaneous service charges, late fee, and non-sufficient funds (NSF) fees be approved?

Recommendation: Yes. Staff recommends that Placid Lakes' requested miscellaneous service charges, late fee, and NSF fees should be approved. The miscellaneous service charges should be $25.00 for the normal hours initial connection, normal reconnection, violation reconnection, and premise visit and $42.50 for after hours initial connection, normal reconnection, violation reconnection, and premise visit. A late fee of $5.00 should be approved. The appropriate NSF fees should be in accordance with Sections 832.08(5) and 68.065(2), F.S.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved charges and fees. The approved charges and fees should be effective for service rendered on or after the stamped approval date on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

Staff Analysis: The Utility requested an increase in its miscellaneous service charges and implementation of a late payment fee. The request was accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091, F.S. In addition, the Utility requested approval of NSF fees.

Currently, Placid Lakes' miscellaneous service charges are $20.00 for the normal hours initial connection, normal reconnection, and violation reconnection. The premise visit charge is $15.00 for normal hours. The current after hours charges are $30.00 for the initial connection, normal connection, and violation reconnection and $22.50 for premise visits. The Utility requested an increase in all normal hours charges to $25.00 and all after hours charges to $42.50. The requested charges are based on the hourly rate of the clerical and field employees and overhead costs including transportation, supplies, and billing expenses. The Utility's proposed charges are reasonable and consistent with prior Commission decisions.

Placid Lakes also proposed NSF fees consistent with Sections 832.08(5) and 68.065(2), F.S. and a $5.00 late payment fee. The cost justification provided by the Utility for the late payment fee appears reasonable and consistent with prior Commission decisions.

Based on the above, staff recommends that Placid Lakes' requested miscellaneous service charges, late fee, and NSF fees should be approved. The miscellaneous service charges should be $25.00 for the normal hours initial connection, normal reconnection, violation reconnection, and premise visit and $42.50 for after hours initial connection, normal reconnection, violation reconnection, and premise visit. A late fee of $5.00 should be approved. The appropriate NSF fees should be in accordance with Sections 832.08(5) and 68.065(2), F.S.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved charges and fees. The approved charges and fees should be effective for service rendered on or after the stamped approval date on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 17: 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?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. 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. Placid Lakes should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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 the reduction in the rates due to the amortized rate case expense. (Roberts)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees (RAFs). The total reduction is $11,140. Using Placid Lakes' current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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 the reduction in the rates due to the amortized rate case expense.

Issue 18: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission-approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Placid Lakes should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Roberts)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Placid Lakes should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 19: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the PAA files a protest within 21 days of the issuance of the order, a consummating order should 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. Once these actions are complete, this docket should be closed administratively. (Gilcher, Roberts)

Staff Analysis: If no person whose substantial interests are affected by the PAA files a protest within 21 days of the issuance of the order, a consummating order should 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. Once these actions are complete, this docket should be closed administratively.

Placid Lakes Utilities, Inc
Schedule of Water Rate Base
Test Year Ended 12/31/12

Schedule No. 1-A
Docket No. 130025-WU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$2,850,500	$184,553	$3,035,053	($188,673)	$2,846,380
2	Land and Land Rights	1,000	0	1,000	0	1,000
3	Non-used and Useful Components	0	(68,210)	(68,210)	8,574	(59,636)
4	Accumulated Depreciation	(1,524,926)	67,503	(1,457,423)	18,595	(1,438,828)
5	CIAC	(1,705,428)	(861)	(1,706,289)	0	(1,706,289)
6	Amortization of CIAC	960,904	(26,064)	934,840	(17,622)	917,218
7	Advances for Construction	(142,254)	1,540	(140,714)	0	(140,714)
8	Working Capital Allowance	0	67,622	67,622	(1,928)	65,694
9	**Rate Base**	$439,796	$226,083	$665,879	($181,053)	$484,826

Placid Lakes Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/12		Schedule No. 1-B Docket No. 130025-WU
	Explanation	**Water**
	Plant In Service	
1	Audit adjustments. (Issue 2)	($40,180)
2	Appropriate pro forma amount. (Issue 3)	(148,493)
	Total	($188,673)
	Non-Used and Useful	
	To reflect net non-used and useful adjustment (Issue 4)	$8,574
	Accumulated Depreciation	
1	Audit adjustments. (Issue 2)	$24,163
2	Appropriate pro forma amount. (Issue 3)	(5,568)
	Total	$18,595
	Accumulated Amortization of CIAC	
	Audit adjustments. (Issue 2)	($17,622)
	Working Capital	
	To reflect the appropriate working capital allowance. (Issue5)	($1,928)

Placid Lakes Utilities, Inc. | **Schedule No. 2**
Capital Structure-Simple Average | **Docket No. 130025-WU**
Test Year Ended 12/31/12

	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	$468,358	($464,587)	$3,771	$0	$3,771	0.57%	9.06%	0.05%
2	Short-term Debt	0	0	$0	0	$0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	$0	0	$0	0.00%	0.00%	0.00%
4	Common Equity	151,562	464,980	616,542	29,064	645,606	96.96%	8.79%	8.52%
5	Customer Deposits	16,750	(250)	16,500	0	16,500	2.48%	2.00%	0.05%
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$636,670	$143	$636,813	$29,064	$665,877	100.00%		8.62%
Per Staff									
8	Long-term Debt	$468,358	($160,344)	$308,014	($104,492)	$203,522	41.98%	3.24%	1.36%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	151,562	191,147	342,709	(116,263)	226,446	46.71%	10.19%	4.76%
12	Customer Deposits	16,750	(250)	16,500	0	16,500	3.40%	2.00%	0.07%
13	Deferred Income Taxes	0	38,358	38,358	0	38,358	7.91%	0.00%	0.00%
14	**Total Capital**	$636,670	$68,911	$705,581	($220,755)	$484,826	100.00%		6.19%

	LOW	HIGH
RETURN ON EQUITY	9.19%	11.19%
OVERALL RATE OF RETURN	5.72%	6.65%

Placid Lakes Utilities, Inc. | **Schedule No. 3-A**
Statement of Water Operations | **Docket No. 130025-WU**
Test Year Ended 12/31/12

	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:**	$634,468	$142,678	$777,146	($118,222)	$658,924	$42,166	$701,090
							6.40%	
	Operating Expenses							
2	Operation & Maintenance	$521,408	$19,564	$540,972	($15,419)	$525,553		$525,553
3	Depreciation	48,676	15,542	64,218	(12,010)	52,208		52,208
4	Taxes Other Than Income	77,052	2,834	79,886	0	0		0
5	**Income Taxes**	0	34,646	34,646	(2,365)	77,521	1,897	79,418
6	**Total Operating Expense**	647,136	72,586	719,722	(35,881)	(1,235)	15,153	13,918
7	**Operating Income**	($12,668)	$70,092	$57,424	(65,675)	654,047	17,050	671,097
8	**Rate Base**	$439,796		$665,879	($52,547)	$4,877	$25,115	$29,992
9	**Rate of Return**	(2.88%)		8.62%		$484,826		$484,826

Placid Lakes Utilities, Inc. **Adjustments to Operating Income** **Test Year Ended 12/31/12**		**Schedule No. 3-B** **Docket No. 130025-WU**
	Explanation	**Water**
	Operating Revenues	
1	Remove requested final revenue increase.	($142,678)
2	Staff adjustment to annualized revenues (Issue 9)	24,456
	Total	($118,222)
	Operation and Maintenance Expense	
1	Audit adjustments. (Issue 2)	$1,874
2	Test year adjustments. (Issue 11)	(3,389)
3	Rate Case Expense. (Issue 12)	(9,465)
4	Appropriate pro forma amount. (Issue 13)	(4,439)
	Total	($15,419)
	Depreciation Expense - Net	
1	Audit adjustments. (Issue 2)	($2,265)
2	Appropriate pro forma amount. (Issue 3)	(10,170)
3	To add net depreciation on non-U&U adjustment above. (Issue4)	425
	Total	($12,010)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($5,320)
2	Audit adjustments. (Issue 2)	2,142
3	To reflect appropriate pro forma property taxes. (Issue 3)	620
4	To reflect Non-U&U Property tax. (Issue 4)	193
	Total	($2,365)

Placid Lakes Utilities, Inc. **Schedule No. 4**
Test Year Ended December 31, 2012 **Docket No. 130025-WU**
Monthly Water Rates

	UTILITY'S CURRENT RATES	UTILITY'S REQUESTED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service				
Base Facility Charge by Meter Size	$10.95	$12.09	$11.66	$0.19
5/8"x3/4"	$27.37	$30.23	$29.14	$0.47
1"	$54.74	$60.45	$58.28	$0.94
1-1/2"	$87.58	$96.72	$93.25	$1.50
2"	$175.16	$193.44	$186.49	$3.00
3"	$273.70	$302.25	$291.41	$4.68
4"	$547.39	$604.51	$582.81	$9.36
6"				
Charge per 1,000 Gallons - Residential				
0 - 10,000 gallons	$4.10	$5.56	$4.37	$0.07
10,001 - 20,000 gallons	$6.16	$8.34	$6.56	$0.11
Over 20,000 gallons	$8.20	$11.12	$8.73	$0.14
Charge per 1,000 Gallons - General Service	$4.39	$5.95	$4.67	$0.08
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	$23.25	$28.77	$24.75	
6,000 Gallons	$41.73	$53.79	$44.43	
10,000 Gallons	$74.53	$98.27	$79.35	