

**Carlotta Stauffer**

---

**From:** Lisa Harvey  
**Sent:** Friday, May 09, 2014 1:45 PM  
**To:** Carlotta Stauffer; Hong Wang  
**Subject:** FW: ORAL MODIFICATIOD Cypress Lakes Utilities, Inc. Docket No. 130212-WS

*fyi*

*Lisa*

---

**From:** Paul Vickery  
**Sent:** Thursday, May 08, 2014 4:36 PM  
**To:** Commissioners Advisors  
**Cc:** Lisa Harvey; Tom Ballinger  
**Subject:** FW: ORAL MODIFICATIOD Cypress Lakes Utilities, Inc. Docket No. 130212-WS

All,

Please see the oral modifications to Item 10 on tomorrow's Agenda.

---

**From:** Braulio Baez  
**Sent:** Thursday, May 08, 2014 1:09 PM  
**To:** Paul Vickery  
**Subject:** RE: ORAL MODIFICATIOD Cypress Lakes Utilities, Inc. Docket No. 130212-WS

Thank you, Paul.

---

**From:** Paul Vickery  
**Sent:** Wednesday, May 07, 2014 11:48 AM  
**To:** Braulio Baez; Lisa Harvey; Curt Kiser; Mary Anne Helton; Jennifer Crawford; Julia Gilcher  
**Cc:** Andrew Maurey; Tom Ballinger; Cheryl Bulecza-Banks; Laura King; Michael Springer; Lynn Deamer; JoEllen Kelly; Todd Brown; Bart Fletcher; Kelly Thompson; Patti Daniel; Daniel Lee; Clayton Lewis  
**Subject:** ORAL MODIFICATIOD Cypress Lakes Utilities, Inc. Docket No. 130212-WS  
**Importance:** High

All,

Staff requests approval to make an oral modification to Item No. 10 on the May 9, 2014 Commission Conference. Specifically, staff requests approval to modify Issues 6, 9, and 10, and Schedule No. 2 of the recommendation filed in Docket No. 130212-WS - Application for increase in rates by Cypress Lakes Utilities, Inc. Additionally, staff requests permission to incorporate the flow-through impacts administratively after the Commission votes on this item.

**Issue 6** involves the used and useful percentages of the Utility's water and wastewater systems. Staff wishes to make an oral modification to the **Staff Analysis** section on pages 18-19 following the subheading Excessive Unaccounted for Water (EUW). Specifically, staff wishes to insert the highlighted text and strike some language in the first paragraph following the subheading. Footnote 16 would now apply to the new text. This action should alleviate some confusion concerning unaccounted for water. See below:

## “Excessive Unaccounted For Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility.<sup>[1]</sup> When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that is not metered, ~~which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft.~~<sup>[4]</sup> The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year.”

Subsequent to the filing of the above referenced staff recommendation, staff identified an error in the application of the Commission-approved leverage formula. Correcting this error increases the return on equity by 16 basis points, from 10.29 percent to 10.45 percent. For water, staff’s revised recommended revenue increase is \$869 dollars higher. (Staff’s original recommended increase was \$60,781 versus the revised recommended increase of \$61,650). For wastewater, staff’s revised recommended revenue decrease is lower by \$2,122. (Staff’s original recommended decrease was \$8,134 versus staff’s revised recommended decrease of \$6,012).

Issue 9 addresses the recommended return on equity. Issue 10 addresses the weighted average cost of capital, which is a fall-out calculation based on the return on equity addressed in Issue 9. Schedule No. 2 is the capital structure for the utility with the changes identified above. Staff requests to orally modify its recommendations as follows:

### **Issue 9:**

What is the appropriate return on equity?

**Recommendation:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is ~~10.29~~ 10.45 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Kelly, Springer)

**Staff Analysis:** The Utility requested an ROE of 10.22 percent. Although CLU correctly utilized the current leverage formula, audit staff determined the equity balances used in the filing did not match UI’s audited financial statements. Audit Finding No. 5 decreased equity by \$5,194,723 to reflect the revised simple average equity balance of \$170,132,500. The Utility agreed to this audit adjustment and provided a revised MFR Schedule D-2. This adjustment results in a lower equity ratio for the test year and thus a higher recommended ROE.

Based on the Commission leverage formula currently in effect and an equity ratio of 48.56 percent, the appropriate ROE is ~~10.29~~ 10.45 percent.<sup>[1]</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

### **Issue 10:**

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 **8.18 8.25** percent. (Kelly, Springer)

**Staff Analysis:** In its filing, the Utility requested an overall cost of capital of 8.27 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure, and ADITs totaling \$25,377 as discussed in Issues 2 and 3, staff recommends a weighted average cost of capital of **8.18 8.25** percent.

Cypress Lakes Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/12							Schedule No. 2 Docket No. 130212-WS	
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	-\$178,672,878	\$1,327,122	49.71%	6.64%	3.30%
2 Short-term Debt	250,000	0	\$250,000	-248,157	\$1,843	0.07%	0.00%	0.00%
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
4 Common Equity	175,327,223	0	\$175,327,223	-174,034,553	\$1,292,670	48.42%	10.22%	4.95%
5 Customer Deposits	13,366	0	\$13,366	0	\$13,366	0.50%	3.00%	0.02%
6 Deferred Income Taxes	<u>34,531</u>	<u>0</u>	<u>\$34,531</u>	<u>0</u>	<u>\$34,531</u>	<u>1.29%</u>	<u>0.00%</u>	<u>0.00%</u>
7 Total Capital	<u>\$355,625,120</u>	<u>\$0</u>	<u>\$355,625,120</u>	<u>-\$352,955,588</u>	<u>\$2,669,532</u>	<u>100.00%</u>		<u>8.27%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	-\$178,761,446	\$1,238,554	49.86%	6.64%	3.31%
9 Short-term Debt	250,000	0	\$250,000	-\$248,280	1,720	0.07%	0.00%	0.00%
10 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
11 Common Equity	175,327,223	-5,194,723	\$170,132,500	-\$168,961,843	1,170,657	47.12%	<del>10.29%</del> <b>10.45%</b>	4.92%
12 Customer Deposits	13,366	0	\$13,366	\$0	13,366	0.54%	3.00%	0.02%
13 Deferred Income Taxes	<u>34,531</u>	<u>25,377</u>	<u>\$59,908</u>	<u>\$0</u>	<u>59,908</u>	<u>2.41%</u>	<u>0.00%</u>	<u>0.00%</u>
14 Total Capital	<u>\$355,625,120</u>	<u>-\$5,169,346</u>	<u>\$350,455,774</u>	<u>-\$347,971,569</u>	<u>\$2,484,205</u>	<u>100.00%</u>		<u>8.25%</u>
						<u>LOW</u>	<u>HIGH</u>	
						RETURN ON EQUITY	<u>9.45%</u>	<u>11.45%</u>
						OVERALL RATE OF RETURN	<u>7.78%</u>	<u>8.72%</u>

---

<sup>[1]</sup> See Order No. PSC-93-0455-NOR-WS, pp. 101, 102, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

<sup>[1]</sup> See Order No. PSC-93-0455-NOR-WS, pp. 101, 102, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

<sup>[1]</sup> See Order No. PSC-13-0241-PAA-WS, issued June 3, 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), F.S.