

FLORIDA PUBLIC SERVICE COMMISSION

Item 10

VOTE SHEET

May 9, 2014

Docket No. 130212-WS – Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

**Issue 1:** Is the quality of service provided by Cypress Lakes Utilities, Inc., satisfactory?

**Recommendation:** Yes. Staff recommends that the quality of service provided by Cypress Lakes Utilities, Inc. (CLU or Utility), be considered satisfactory. There are no outstanding enforcement issues regarding the operational condition of the Utility's water and wastewater facilities. Based on test results, the water provided by the Utility appears to meet all quality standards and CLU appears to be responsive to its customers.

**APPROVED**

*as amended, for discussion between staff, utility, OPC and customers in next 6 months, re: flushing issue.*

**Issue 2:** Should the audit adjustments to rate base to which the Utility agrees be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility and staff, adjustments should be made to rate base as set forth in the analysis portion of staff's memorandum dated April 24, 2014.

**APPROVED**

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*Julie*  
*[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]*

*[Signature]* (issue 14)\*

**REMARKS/DISSENTING COMMENTS:**

*Staff granted administrative authority to correct all fallout calculations, based on oral modifications in Issues 9 and 10. See attached DN 02180-14.*

PSC/CLK033-C (Rev 03/07) \*Chairman Graham dissents on Issue 14 of Item 10.

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**Issue 3:** Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation:** Yes. Plant should be reduced by \$14,801 for water and \$13,593 for wastewater. Corresponding adjustments should be made to reduce accumulated depreciation by \$13,658 for water and \$12,545 for wastewater and to reduce depreciation expense by \$4,032 for water and \$3,703 for wastewater. Computer maintenance expense should be reduced by \$2,306 for water and \$2,118 for wastewater. In addition, consistent with the Commission's previous decisions, CLU should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in the Utility's next rate proceeding. Furthermore, when appropriate, the regulatory asset or liability should be amortized over four years.

**APPROVED**

**Issue 4:** Should any additional test year plant adjustments be made for water?

**Recommendation:** Yes. Plant should be increased by \$24,256 for water and Material and Supplies (M&S) expense should be decreased by \$1,718, and accordingly, corresponding adjustments should be made to increase accumulated depreciation by \$3,141, depreciation expense by \$775, and property taxes by \$320. Accumulated deferred income taxes (ADITs) should also be increased by \$4,637.

**APPROVED**

**Issue 5:** Should any adjustments be made to the Utility's pro forma plant additions?

**Recommendation:** Yes. The appropriate amount of pro forma plant additions for wastewater is \$108,338. This results in a decrease of \$1,662 from the Utility's requested amount. Corresponding adjustments should also be made to increase accumulated depreciation by \$1,667 and decrease depreciation expense by \$52. Additionally, pro forma property taxes should be decreased by \$704 for water and \$189 for wastewater. ADITs should be increased by \$20,740.

**APPROVED**

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**Issue 6:** What are the Used and Useful percentages of the Utility's water and wastewater systems?

**Recommendation:** The Utility's water and wastewater systems should continue to be 100 percent Used and Useful (U&U). The test year wastewater treatment cost of purchased power and chemicals should be reduced by 1 percent, or \$626 due to excessive infiltration and inflow. No adjustment should be made for excessive unaccounted for water.

**APPROVED**

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowances are \$26,177 for water and \$34,875 for wastewater. As such, the working capital allowances should be decreased by \$2,875 and \$2,522 for water and wastewater, respectively.

**APPROVED**

**Issue 8:** 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 \$721,607 for water and \$1,762,598 for wastewater.

**APPROVED**

**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~~ <sup>10.45\*</sup> percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

**APPROVED**

\* per oral modification at Commission Conference  
this date. (DN 02180-14)

Docket No. 130212-WS – Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

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**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~~ percent.

8.25\*

**APPROVED**

\* per oral modification at Commission Conference this date.  
(DN 02180-14)

**Issue 11:** What is the appropriate amount of test year revenues for the Utility's water and wastewater systems?

**Recommendation:** The appropriate test year revenues for Cypress Lakes' water and wastewater systems are \$313,273 and \$667,342, respectively.

**APPROVED**

**Issue 12:** Should the audit adjustments to net operating income to which the Utility agrees be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to net operating income as set forth in the analysis portion of staff's memorandum dated April 24, 2014.

**APPROVED**

**Issue 13:** Should any adjustments be made to the Utility's salaries and wages, pensions and benefits, and payroll taxes?

**Recommendation:** Yes. Salaries and Wages expense should be reduced by \$1,967 for water and \$1,806 for wastewater. Corresponding adjustments should also be made to reduce payroll taxes for water and wastewater by \$282 and \$259, respectively.

**APPROVED**

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**Issue 14:** What is the appropriate amount of rate case expense for the current case?

**Recommendation:** The appropriate amount of rate case expense is \$118,428. This expense should be recovered over four years for an annual expense of \$29,607. Therefore, annual rate case expense for water and wastewater should be increased by \$868 and \$798, respectively, from the amount requested in the Utility's initial filing.

**APPROVED** as modified.

*5-28-14  
(12)*  
Reduce total rate case expense by 25 percent, from ~~\$118,428~~ to ~~\$88,815~~, based upon concern that total amount is unreasonable.

**Issue 15:** Should further adjustments be made to the Utility's test year O&M expense?

**Recommendation:** Yes. O&M expense should be reduced by \$5,881 for water and \$5,401 for wastewater to reflect the appropriate level of contractual services-engineering, miscellaneous, and contractual services-other expenses.

**APPROVED**

**Issue 16:** Should any further adjustments be made to property taxes?

**Recommendation:** Yes. Property taxes should be decreased by \$10,318 for water and \$9,483 for wastewater.

**APPROVED**

**Issue 17:** What is the appropriate revenue requirement for the test year?

**Recommendation:** The following revenue requirement should be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$313,273	\$60,781	\$374,054	19.40%
Wastewater	\$667,342	(\$8,134)	\$659,208	(1.22%)

**APPROVED**

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**Issue 18:** What are the appropriate rate structures and rates for Cypress Lakes' water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively, of staff's memorandum dated April 24, 2014. 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 the notice was given within ten days of issuance.

**APPROVED**

**Issue 19:** Should Cypress Lake's request to implement a \$5.25 late payment charge be approved?

**Recommendation:** Yes. The Utility's request to implement a \$5.25 late payment charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services 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 charge 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 ten days of issuance.

**APPROVED**

**Issue 20:** What are the appropriate initial customer deposits for Cypress Lakes?

**Recommendation:** The appropriate initial customer deposits should be \$43 and \$84 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

**APPROVED**

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**Issue 21:** In determining whether any portion of the water interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The appropriate refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. This results in a refund of 15.78 percent for water. The refund should be made with interest in accordance with Rule 25-30.0360(4), F.A.C. The Utility should be required to submit proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as Contributing in Aid of Construction (CIAC), pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made.

**APPROVED**

**Issue 22:** What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's memorandum dated April 24, 2014, 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. CLU 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.

**APPROVED**

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**Issue 23:** 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 National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (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, CLU 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.

**APPROVED**

**Issue 24:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action 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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

**APPROVED**



**Carlotta Stauffer**

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**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>[1]</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>

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<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.