

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in  
Highlands County by Lake Placid Utilities Inc.

DOCKET NO. 130243-WS  
ORDER NO. PSC-14-0335-PAA-WS  
ISSUED: June 30, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
LISA POLAK EDGAR  
RONALD A. BRISÉ  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING RATE INCREASE FOR  
WATER AND DECREASE FOR WASTEWATER AND FINAL ORDER ESTABLISHING  
TEMPORARY RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, *except as identified as Final Agency Action*, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

**BACKGROUND**

Lake Placid Utilities, Inc. (Lake Placid or Utility) is a Class C utility serving approximately 120 water and 121 wastewater customers in Highlands County. Lake Placid is owned by Utilities, Inc. (UI), an Illinois corporation that owns approximately 72 utilities in 15 states, including 12 water and wastewater utilities in Florida. Lake Placid's service territory is located in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area. The Utility's 2013 annual report shows total gross revenues of \$58,538 for water and \$72,135 for wastewater, with net operating losses of \$9,863 and \$5,290 for water and wastewater, respectively.

Lake Placid began providing service in 1969. The water and wastewater systems were subsequently granted grandfather Certificate Nos. 414-W and 347-S in 1983, when Highlands County transferred jurisdiction of its water and wastewater utilities to this Commission.<sup>1</sup> UI purchased the systems in 1993 through a bankruptcy proceeding, and the certificates were

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<sup>1</sup> See Order No. 12447, issued September 6, 1983, in Docket No. 830141-WS, In re: Application of Lake Placid Utilities for certificates to operate water and sewer systems in Highlands County, pursuant to Section 367.171, Florida Statutes.

transferred to Lake Placid Utilities, Inc.<sup>2</sup> The Utility's certificates were subsequently amended to include additional territory to serve up to 52 potential connections in the Village Del Mar development in 2010.<sup>3</sup> Lake Placid's rate base was last established in its 2009 staff-assisted rate case (SARC) by Order No. PSC-11-0015-PAA-WS.<sup>4</sup>

In the instant docket, Lake Placid filed its application for a SARC on September 30, 2013, and subsequently completed our filing requirements. December 2, 2013 was established as the official filing date in this case.

On March 7, 2014, our staff filed a preliminary recommendation (Staff Report) pending further review of this case. A customer meeting was subsequently held on April 3, 2014, at the Deann Lakefront Estates Clubhouse in Lake Placid. Approximately 16 customers attended the meeting, 4 customers spoke, 2 of the customers who spoke also provided letters, and 6 additional individuals representing 4 customer accounts provided letters. The customers expressed concerns about the rate increase and some quality of service issues. On April 22, 2014, the Office of Public Counsel (OPC) filed a letter in this docket to address several concerns related to the customer meeting and Staff Report. We address the concerns raised by the customers and OPC.

We have jurisdiction in this case pursuant to Sections 367.0814, Florida Statutes (F.S.).

## **DECISION**

### **I. Quality of Service**

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with 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 or complaints.

#### **Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities**

Lake Placid's raw water source is ground water, which is obtained from two wells. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject

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<sup>2</sup> See Order No. PSC-93-1448-FOF-WS, issued October 4, 1993, in Docket No. 930570-WS, In re: Application for Transfer of Certificates Nos. 414-W and 347-S from Lake Placid Utilities to Lake Placid Utilities, Inc.

<sup>3</sup> See Order No. PSC-10-0489-FOF-WS, issued August 5, 2010, in Docket No. 100301-WS, In re: Application for amendment of Certificates 414-W and 347-S to extend water and wastewater service areas to include certain land in Highlands County by Lake Placid Utilities, Inc.

<sup>4</sup> Issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

liquid chlorine, pressurize/storage in a tank, and distribute. Wastewater service is provided via a wastewater treatment plant with percolation ponds.

Our staff reviewed the Utility's and DEP records. According to DEP, Lake Placid is current in all of the required chemical analyses for both water and wastewater and Lake Placid's water and wastewater finished products comply with all regulatory standards.

A review of sanitary surveys and compliance inspection reports over the last three years indicates that Lake Placid has generally met all requirements for both water and wastewater. No deficiencies were noted in its 2012 inspection and deficiencies noted in its 2011 inspections had been corrected. The DEP's April 18, 2013 inspection of the water treatment plant's condition found two deficiencies (the well pad on the first well did not extend all the way to the casing and its motor was not bolted down, and the second well had its pad entirely covered with sand and vegetation). Our staff verified during its April 3, 2014 field inspection that Lake Placid corrected these deficiencies. Therefore, we find that the quality of drinking water delivered to the customers, the wastewater effluent quality, and the operating condition of the water and wastewater facilities is satisfactory.

#### The Utility's Attempt to Address Customer Satisfaction

A review of our complaint records indicate that there were no complaints recorded during the test year. The Utility received six complaints during the test year, all of which were satisfactorily resolved. Three were due to meter reading errors, two due to low water pressure that was caused by a leak, and one was an odor problem resolved by flushing the line. Further, we reviewed the DEP's records and found no customer complaints on file.

A customer meeting was conducted on April 3, 2014. This meeting gave the customers an opportunity to express specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints were investigated and were taken into consideration.

The customer meeting was held in Lake Placid, Florida. Approximately 16 customers attended the meeting and four customers spoke with concerns about Lake Placid. The customers stated that (1) the proposed rates were higher than the average for cities with a population similar to Lake Placid, Florida; (2) the water pressure at the top of two apartment buildings (known as The Towers) was too low; and (3) the Staff Report was not available in the public library for inspection as noticed. The Utility provided a copy to the library the following day.

Immediately following the customer meeting, Mr. Patrick Flynn and Mr. Mike Wilson of the Utility went with the customers who complained about The Towers' water pressure to investigate the situation. The customers explained that, due to DEP requirements, they had hired a plumber to install a backflow prevention device on the water main to The Towers. To maintain water pressure at the top of The Towers, they also had to have the plumber install a booster pump. Mr. Flynn measured the water pressure to the booster pump and found it was within the acceptable range. The booster pump, however, cycles on and off too rapidly to be effective and

the constant cycling of the pump raises the residents' power bills. Mr. Flynn noted that the plumber had wired the booster pump control panel improperly such that it was not in compliance with National Electric Code standards and advised the board members to hire an electrician to install it properly. He also provided suggestions on viable solutions to the water pressure problem.

Our staff contacted The Towers' representative on May 12, 2014, to follow up on the water pressure problem. The representative stated he had worked with contractors to address the problem and had thought the pressure problem was resolved. However, during the previous week the issue had returned. The representative said he would continue to contact the contractors until the pressure problem is resolved.

As of May 20, 2014, eight customers have sent comments to us regarding this rate case. The majority of the customers stated they were opposed to a rate increase. One customer stated that the water was cloudy, had an odor, and that water pressure was not consistent. Our staff determined that this customer had not filed a complaint with the Utility, so our staff sent a letter advising him to contact the company with his water quality concerns.

### Summary

Lake Placid is current in meeting water quality standards for all required chemical analyses and the water provided by Lake Placid is meeting applicable primary and secondary standards as prescribed in the DEP rules. In addition, we find the condition of the wastewater and water treatment facilities is satisfactory. It also appears the Utility has attempted to address the customers' concerns. Therefore, we find the overall quality of service for the Lake Placid system in Highlands County is satisfactory.

## **II. Used and Useful (U&U) WWTP and Collection System**

Lake Placid has one WTP with two 6-inch wells operating at depths of 392 and 649 feet and rated at a total capacity of 400 gallons per minute (gpm). The raw water pumped from the wells is treated with liquid chlorine, which is injected prior to entry into the 5,000-gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system.

Lake Placid's WWTP is an extended aeration activated sludge plant with 4 lift stations located within the service area. The collection system is composed of gravity and force mains. The WWTP capacity is permitted by DEP at 0.090 million gallons per day (MGD) per Annual Average Daily Flow (AADF). The plant consists of 2 aeration tanks (a 57,863-gallon tank and a 42,363-gallon tank), a 16,900-gallon clarifier, a 2,626-gallon chlorine contact tank, and 2 digester tanks (a 1,913-gallon tank and a 5,000-gallon tank). The Utility's land application for effluent disposal consists of 2 percolation ponds.

### Excessive Unaccounted for Water (EUW)

Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, we recognized that some uses of water are readily measurable and others are not. The Rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, we will consider all relevant factors resulting in 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. Lake Placid pumped a total of 5.2709 million gallons, used 0.1285 million gallons for flushing, and sold 4.518 million gallons to customers. Thus, Lake Placid's unaccounted for water for the test year is 0.6244 million gallons, or 11.85 percent, with a resulting EUW of 1.85 percent of the total gallons pumped. We find that a 1.85 percent adjustment shall be made to purchased power and chemical expenses for the WTP.

### Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gallons per day per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. The Utility's records indicated that there was no excessive I&I for the test year.

### Water Treatment Plant

The water treatment system has 2 wells rated at 200 gpm. The processing sequence is to pump raw water from the aquifer, treat with liquid chlorine, pressurize/storage, and then the treated water is pumped into the water distribution system. There has been no growth in the service area for the past 5 years and no apparent potential for additional development. Therefore, pursuant to Rule 25-30.4325(4), F.A.C., the water treatment plant is considered 100 percent U&U.

### Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the wastewater treatment plant was calculated by taking the AADF plus the growth allowance minus the excess I&I, and dividing the sum by the permitted capacity of the plant (0.090 MGD). The customer demand for the test year based on the AADF was 16,540 gpd. Projected growth for the Utility over the next 5 years is zero equivalent residential connections (ERCs) per year. Lake Placid does not have excessive I&I based on a comparison of the wastewater treated and an allowance for I&I based on the size and length of the collection system. Using the information above, the wastewater treatment plant is considered 18.4 percent U&U (see Eq. 2.1). However, in the last case, we

approved a U&U percentage of 28.5 percent, and it has been our practice not to use a lower percentage unless there has been a change in capacity of the plant. In that rate case,<sup>5</sup> the Utility had excessive I&I of 15,734 gallons, whereas for the test year in the instant case, the Utility had no excessive I&I. Based on all of these considerations, we find that the WWTP is 28.5 percent U&U.

$$[16,540 + 0 - 0]/90,000 = 18.4\% \text{ Used and Useful}$$

Eq. 2.1

### Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and the wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. Because the Utility's current distribution and collection systems are needed to serve the existing customers and a significant portion of the distribution and collection systems were contributed to the Utility, we find that the water distribution and wastewater collection systems is 100 percent U&U.

### Summary

Based on the analysis above, we find Lake Placid's WTP, water distribution, and wastewater collection system is 100 percent U&U. Its WWTP is 28.5 percent U&U. A 1.85 percent adjustment to operation and maintenance expenses shall be made for EUW. We find no adjustment for I&I.

### **III. Phoenix Project**

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. UI's Phoenix Project became operational in December 2008. Since 2009, we approved recovery of the cost of the Phoenix Project in several UI rate cases.<sup>6</sup> In those cases, UI allocated the Phoenix Project costs based on the ratio of each subsidiary's ERCs to UI's total ERCs. In the instant case, UI allocated 0.09 percent of its costs to Lake Placid based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are \$22,561,496,<sup>7</sup> of which approximately \$21,701 was allocated to Lake Placid.

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<sup>5</sup> See Order No. PSC-11-0015-PAA-WS, issued on January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

<sup>6</sup> See Docket Nos. 130212-WS, 120209-WS, 120076-SU, 120037-WS, 110257-WS, 110264-WS, 110153-SU, 100426-WS, 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>7</sup> See "Utilities, Inc. Audit of Affiliate Transactions," Audit Control No. 13-296-4-2, Work Paper No. 22-5.6.1, in Docket No. 130212-WS, In re: Application for an Increase in Water and Wastewater Rates in Polk County by Cypress Lakes Utilities, Inc.

2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as subsidiaries in other states. By Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.<sup>8</sup> Because no added benefit was realized by the remaining subsidiaries, we found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we ruled that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

Affiliate Audit Finding Nos. 2 and 3

By Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and then required UI to deduct \$1,724,166 from the total cost of the Phoenix Project for divestitures, resulting in a balance of \$19,893,321, before allocating costs to the remaining UI subsidiaries.<sup>9</sup> Our audit staff conducted an affiliate transactions audit in Docket No. 130212-WS that addressed affiliate transactions related to both Cypress Lakes Utilities, Inc. (Cypress Lakes) and Lake Placid.<sup>10</sup> According to our staff's affiliate audit report, UI did not make adjustments to the computer balances on its books to reflect the amounts ordered for the Phoenix Project. Affiliate Audit Finding No. 2 recommends that plant and accumulated depreciation be reduced to reflect the allocated share of the Commission-ordered Phoenix Project cost of \$19,893,321. UI shows the Phoenix Project balance at December 31, 2008, to be \$21,525,403. The difference between UI's balance and the ordered amount is \$1,632,082.

In Affiliate Audit Finding No. 3, our audit staff discovered that UI did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Our audit staff adjusted the accumulated depreciation and depreciation expense on the Phoenix Project from eight to ten years to comply with the Order.

The Utility did not file a response to the Lake Placid portion of the affiliate audit, but did file a response regarding Cypress Lakes. Specifically, in Docket No. 130212-WS, Cypress Lakes responded that it did not object to the affiliate audit findings. However, Cypress Lakes believes that the treatment of Phoenix Project costs in Affiliate Audit Finding No. 2 should be

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<sup>8</sup> See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

<sup>9</sup> See Order No. PSC-10-0407-PAA-SU, issued on June 21, 2010, in Docket No. 090381-WS, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 6.

<sup>10</sup> See Audit Control No. 13-296-4-2, in Docket No. 130212-WS.

held in abeyance pending the outcome of the UI Generic Docket No. 120161-WS.<sup>11</sup> We find that the appropriate depreciable life for the Phoenix Project is still ten years. Therefore, we decreased water and wastewater plant by \$732 and \$737, respectively. Corresponding adjustments shall also be made to decrease accumulated depreciation by \$1,258 for water and \$1,268 for wastewater, and decrease depreciation expense by \$314 for water and \$317 for wastewater. Based on Affiliate Audit Finding Nos. 2 and 3, our prior orders, and the additional subsidiary divestitures discussed below, additional adjustments need to be made to plant, accumulated depreciation, and depreciation expense.

#### Additional Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries in North Carolina, South Carolina, and Florida. The four divested systems collectively represent 9,518 ERCs. By Order No. PSC-12-0206-PAA-WS, we further reduced the total cost of the Phoenix Project for systems divested in 2010.<sup>12</sup> In 2011 and 2012, a total of 9 additional systems were divested by UI, representing an additional 7,909 ERCs. Consistent with prior decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project should also be made for subsequent divestitures. By Order No. PSC-14-0025-PAA-WS, we further reduced the total cost of the Phoenix Project for systems divested in 2011 and 2012.<sup>13</sup> No additional divestitures were reported through 2013. For purposes of this adjustment, the net number of ERCs related to the divested systems is 17,427 (9,518 + 7,909), or 6.57 percent of the total number of ERCs through the 2012 test year for UI. The divested systems and the corresponding ERCs are shown in the table below.

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<sup>11</sup> On May 23, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida-subsiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address our treatment of the Phoenix Project costs. This generic docket has been assigned Docket No. 120161-WS.

<sup>12</sup> See Order Nos. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., p. 12, and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

<sup>13</sup> See Order No. PSC-14-0025-PAA-WS, in Docket No. 120209-WS, p. 12.



Table 3-1

ERC/Percentage of Divested Subsidiaries		
<u>System</u>	<u>ERCs</u>	<u>ERC%</u>
Bio Tech Admin.	0	0.00%
Carolina Water Serv., Inc. of N.C.	327	0.12%
South Carolina Utilities, Inc. (United Utility Company)	246	0.09%
Alafaya Utilities, Inc. (as of 12/31/07)	8,945	3.37%
Carolina Water Serv., Inc. of N.C.	512	0.19%
Cabarrus Woods	5,175	1.95%
Forest Ridge	518	0.20%
Lamplighter Village	349	0.13%
Britley	123	0.05%
Windsor Chase	135	0.05%
Bayside Utility Services	437	0.16%
Sandy Creek Services	370	0.14%
Woodbury Subdivision	<u>290</u>	<u>0.11%</u>
Total	<u>17,427</u>	<u>6.57%</u>

Consistent with our prior decisions, the total cost of the Phoenix Project for UI is reduced by an additional 6.57 percent, or \$1,481,788 ( $\$22,561,496 \times 0.06567849$ ), to account for the divestiture of subsidiaries through 2012. The effect on the filing decreases water and wastewater plant by \$593 and \$741, respectively. Corresponding adjustments decrease water and wastewater accumulated depreciation by \$30 and \$37, respectively. Water and wastewater depreciation expense is decreased by \$59 and \$74, respectively.

Tables 3-2 through 3-4 show the plant, accumulated depreciation, and depreciation expense adjustments described above by water and wastewater service, as well as the total adjustment for each service which is reflected on the appropriate Schedule Nos. 1-C and 3-C.

Table 3-2

Plant Adjustments			
<u>System</u>	<u>Divestiture Plant Adj.</u>	<u>Prior Order Plant Adj.</u>	<u>Total Adjustment</u>
Water	(\$593)	(\$732)	(\$1,325)
Wastewater	(741)	(737)	(1,478)
Total	<u>(\$1,334)</u>	<u>(\$1,469)</u>	<u>(\$2,803)</u>

Table 3-3

Accumulated Depreciation Adjustments			
<u>System</u>	<u>Divestiture Acc. Dep. Adj.</u>	<u>Prior Order Acc. Dep. Adj.</u>	<u>Total Adjustment</u>
Water	\$30	\$1,258	\$1,288
Wastewater	37	1,268	1,305
Total	<u>\$67</u>	<u>\$2,526</u>	<u>\$2,593</u>

Table 3-4

Depreciation Expense Adjustments			
<u>System</u>	<u>Divestiture Dep. Exp. Adj.</u>	<u>Prior Order Dep. Exp. Adj.</u>	<u>Total Adjustment</u>
Water	(\$59)	(\$314)	(\$373)
Wastewater	(74)	(317)	(391)
Total	<u>(\$133)</u>	<u>(\$631)</u>	<u>(\$764)</u>

### Computer Maintenance Expense

In several recent rate cases involving Lake Placid's sister companies, we recognized the volatility of computer maintenance expense. Due to this volatility, we determined that a five-year average is an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with our treatment of the Phoenix Project costs per ERC.<sup>14</sup> Based on the five-year average and Lake Placid's ERC allocation percentage, we calculated a reduction of \$208 for water and \$210 for wastewater. Moreover, to remove the Phoenix Project computer maintenance charge for the divested systems' share, computer maintenance expense is reduced by \$8 for water and \$9 for wastewater. The following table shows the adjustments described above by water and wastewater service. The total adjustments are reflected on Schedule No. 3-C.

Table 3-5

Computer Maintenance Expense Adjustments			
<u>System</u>	<u>5-yr. Avg. Exp. Adj.</u>	<u>Divest. Adj.</u>	<u>Total Adjustment</u>
Water	(\$208)	(\$8)	(\$216)
Wastewater	(210)	(9)	(219)
Total	<u>(\$418)</u>	<u>(\$17)</u>	<u>(\$435)</u>

<sup>14</sup> See Order Nos. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, in Docket No. 110264-WS; and PSC-14-0025-PAA-WS, in Docket No. 120209-WS.

### Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, UI (Lake Placid's parent company), with the consent and support of OPC, petitioned us to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project. In that Agreement, the Parties agreed, and we subsequently ordered,<sup>15</sup> that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final decision in Docket No. 120161-WS, the Utility is authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset<sup>16</sup> or liability,<sup>17</sup> at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. We also ordered that the regulatory asset or liability be amortized over four years. We ordered this same treatment for other Lake Placid sister companies, including Sanlando Utilities Corporation, Utilities, Inc. of Pennbrooke, and Utilities, Inc. of Florida.<sup>18</sup> Therefore, consistent with our actions in Docket No. 110153-SU and subsequent dockets, we find that Lake Placid is 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 Lake Placid's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over four years.

### Conclusion

Plant is reduced by \$1,325 for water and \$1,478 for wastewater. Corresponding adjustments reduce accumulated depreciation by \$1,288 for water and \$1,305 for wastewater and reduce depreciation expense by \$373 for water and \$391 for wastewater. Computer maintenance expense is reduced by \$216 for water and \$219 for wastewater. In addition, consistent with our previous decisions, Lake Placid is 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 Lake Placid's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over four years.

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<sup>15</sup> See Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, pp. 2, 9.

<sup>16</sup> A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. Our approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

<sup>17</sup> An example of a regulatory liability would be the deferral of past overearnings to future periods.

<sup>18</sup> See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, in Docket No. 120037-WS; and PSC-14-0025-PAA-WS, in Docket No. 120209-WS.

#### **IV. Test Year Rate Base**

Utility Plant in Service (UPIS): The Utility recorded UPIS of \$495,095 for water and \$798,135 for wastewater. The Lake Placid audit noted no exceptions to the Utility's UPIS balances. The affiliate transaction audit noted that some vehicles were reassigned during the test year to employees whose time is not allocated to Lake Placid. In addition, the motor pool vehicles and special equipment were allocated with an incorrect ERC factor for Florida. Based on our audit staff's supplemental audit workpapers, UPIS is decreased by \$3,367 for water and \$3,394 for wastewater to reflect the appropriate allocation of vehicles.<sup>19</sup> UPIS is decreased by a total of \$1,325 for water and \$1,478 for wastewater to reflect the appropriate Phoenix Project allocations for Lake Placid. We also decreased UPIS by \$560 for water and \$564 for wastewater to reflect the appropriate allocation of Illinois and Florida Headquarters' plant to Lake Placid. Finally, we decreased UPIS by \$4,114 for water and \$92 for wastewater to reflect an averaging adjustment to plant. The net adjustments to UPIS are decreases of \$9,366 and \$5,528 for water and wastewater, respectively. Therefore, UPIS balance is \$485,729 for water and \$792,607 for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$2,796 for water and \$21,665 for wastewater. No adjustments are necessary, therefore, the appropriate land balances are \$2,796 and \$21,665 for water and wastewater, respectively.

Non-Used and Useful Plant: Lake Placid's distribution and collection systems are 100 percent U&U. In addition, the water treatment plant is 100 percent U&U. The wastewater treatment plant is 28.5 percent U&U. In the Utility's 2006 and 2009 rate cases, a U&U percentage was applied to Account No. 380 – Treatment and Disposal, and to an additional \$170,670 of plant recorded in Account No. 354 – Structures and Improvements, that was transferred from Account No. 380 to Account No. 354 in 2005.<sup>20</sup> In its April 22 letter, the OPC noted that plant additions were made to the treatment plant portion of Account No. 354 after 2005 that were not reflected in the 2009 rate case, and that the test year balance related to treatment plant has increased to \$237,176. OPC believes the U&U percentage should be applied to the test year balance rather than the balance used in the 2006 and 2009 rate cases.

Upon review of the Utility's records related to the treatment plant portion of the structures and improvements account and we agree with OPC that the test year balance, including utility additions and our previous ordered adjustments, is \$237,176. Further, we agree with OPC that it is appropriate to apply the U&U percentage to the test year balance of \$237,176. In addition, OPC believes the U&U percentage should be applied to the test year balance of the treatment plant portion of Account No. 380 – Treatment and Disposal, which equals \$54,607. We agree with OPC, however, we find that the adjustment is applied to the full balance of Account No. 380, which includes an additional \$46 for the Lagoon and increases the

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<sup>19</sup> See Audit Control No. 13-296-4-2, Supplemental Audit Workpapers.

<sup>20</sup> See Order Nos. PSC-07-0287-PAA-WS, issued on April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc., and PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS.

test year balance to \$54,653. Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in a net adjustment of \$97,006. Therefore, wastewater rate base is reduced by \$97,006 to remove the 71.5 percent of the wastewater treatment plant that is non-U&U.

Contributions In Aid of Construction (CIAC): The Utility recorded CIAC balances of \$235,199 for water and \$335,881 for wastewater. Our audit staff reviewed CIAC additions from January 1, 2009 through December 31, 2012, and determined that no adjustments are necessary. Therefore, CIAC is \$235,199 and \$335,881 for water and wastewater, respectively.

Accumulated Depreciation: Lake Placid recorded a test year accumulated depreciation balance of \$184,889 for water and \$575,669 for wastewater. Our audit staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions and retirements. No exceptions were noted in the Lake Placid audit initially. However, in its April 22 letter, the OPC questioned the cause and accuracy of two Utility income tax adjustments that appeared to contribute to the net debit deferred income tax balance reflected in the Utility's capital structure. Additional review by our audit staff revealed that in 2009, the Utility recorded our ordered adjustment to accumulated depreciation, which increased (credited) the reserve by \$93,983.<sup>21</sup> This same adjustment was recorded a second time in 2011, at which time the Utility recorded an adjustment of \$35,366 that decreased (debited) deferred income taxes. The 2011 adjustment of \$93,983 should be removed. In addition, the Utility failed to accrue depreciation expense of \$275 per year for 2009 through 2012. Therefore, accumulated depreciation is decreased (debited) by \$92,884 (\$93,983 - \$1,099 (\$274.85 x 4)) and depreciation expense is increased (debited) by \$275. The 2011 reduction to deferred taxes made by the Utility should not have been made. Therefore, deferred taxes are increased (credited) by \$35,366. Further, wastewater depreciation expense is increased (debited) by \$275.

As discussed above in the UPIS section, the affiliate transactions audit determined that several adjustments were necessary to UPIS related to the allocation of vehicles, Project Phoenix, and headquarters' plant. Our corresponding adjustments to accumulated depreciation are shown in Table 4-1 below, along with the adjustment to Account No. 351 discussed above and an averaging adjustment to direct accumulated depreciation.

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<sup>21</sup> See "Auditor's Report, Lake Placid Utilities, Inc. Staff-Assisted Rate Case," Audit Control No. 13-201-2-1, Supplemental Audit Workpapers.

Table 4-1

Summary of Adjustments to Accumulated Depreciation			
	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect appropriate accumulated depreciation for Acct. No. 351 – Organization.	N/A	\$92,884
2.	To reflect appropriate allocation of vehicles based on supplemental audit workpapers.	\$2,236	2,254
3.	To reflect appropriate Phoenix Project allocation per Order No. PSC-10-0407-PAA-SU and for 2010-2012 divestitures.	1,288	1,305
4.	To reflect appropriate allocation of Illinois and Florida Headquarters' accumulated depreciation.	901	909
5.	To reflect an averaging adjustment.	<u>10,657</u>	<u>14,507</u>
	Total	<u>\$15,082</u>	<u>\$111,860</u>

As a result of our adjustments, the accumulated depreciation accounts are decreased by \$15,082 and \$111,860 for water and wastewater, respectively. We find accumulated depreciation balances of \$169,807 for water and \$463,809 for wastewater.

Accumulated Amortization of CIAC: The Utility recorded amortization of CIAC of \$78,650 for water and \$155,911 for wastewater. Amortization of CIAC has been calculated by our audit staff using composite depreciation rates, and no exceptions were noted in the Lake Placid audit. We decreased this account by \$3,953 for water and \$5,105 for wastewater to reflect an averaging adjustment. Adjustments to this account result in amortization of CIAC balances of \$74,697 for water and \$150,806 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we find a working capital allowance of \$4,624 for water (based on O&M expense of \$36,991/8), and \$5,884 for wastewater (based on O&M expense of \$ 47,069/8).

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$162,841 for water and \$74,266 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

## **V. Return on Equity and Overall Rate of Return**

Because all the capital improvements for this Utility are funded by its parent company, UI, the relative percentages of investor sources of capital of the parent company are used for Lake Placid. According to our audit, Lake Placid's test year capital structure reflected the parent company's common equity of \$170,132,500, long-term debt of \$180,000,000, and short-term debt of \$250,000, along with Lake Placid's specific customer deposits of \$770 and negative

(debit) accumulated deferred income taxes of \$22,175. However, deferred taxes are increased (credited) by \$35,366. The correction results in a positive (credit) deferred income tax balance of \$13,191 for ratesetting purposes. The credit deferred income taxes have been included in the capital structure at a zero cost.

The Utility's capital structure has been reconciled with the approved rate base. The appropriate ROE for the Utility is 10.45 percent based upon our approved leverage formula currently in effect.<sup>22</sup> We find a ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 7.99 percent. The ROE and overall rate of return are shown on Schedule No. 2.

## **VI. Test Year Revenues**

Lake Placid recorded total test year revenues for water of \$57,538 and wastewater of \$70,751, including service revenues of \$57,046 for water and \$70,373 for wastewater and miscellaneous revenues of \$492 and \$378, for water and wastewater, respectively. Based on a review of the Utility's billing determinants and the rates that were in effect during the test year, we find that the Utility's service revenues are increased by \$240 and \$189 for water and wastewater, respectively, to reflect the appropriate test year revenues. Based on the above, the appropriate test year revenues for water and wastewater are \$57,778 and \$70,940, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B and adjustments are shown on Schedule No. 3-C.

## **VII. Operating Expense**

Lake Placid recorded operating expense of \$55,697 for water and \$65,413 for wastewater for the test year ended December 31, 2012. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages – Employees (601/701) – Lake Placid recorded \$6,253 for water salaries and \$6,303 for wastewater salaries in these accounts. We have increased water salaries by \$1,078 and wastewater salaries by \$1,087 to reflect the appropriate allocation of current annualized employee salaries, resulting in total salaries and wages – employees' expense of \$7,331 for water and \$7,390 for wastewater.

In its April 22 letter, OPC noted that the Utility's expenses include both contractual services and allocated salaries related to plant operations. OPC expressed concern that allocated salaries may be duplicative of services provided by the contractual service vendors. We reviewed the work performed by the contractual plant operator, contractual meter reader, and salaried plant operators. Based on this review, we do not believe the work performed by the salaried plant operators duplicates work being provided by the contractual service vendors.

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<sup>22</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.

Under DEP standards, a plant operator is required to be on premises at the Lake Placid water and wastewater systems a minimum of five weekdays and one weekend day per week.<sup>23</sup> Lake Placid's contract operator is responsible for plant operation at the Lake Placid facilities on four weekdays and at least one weekend day per week, and is on call for emergency services 24 hours a day, 7 days a week. Duties include general operation and maintenance of the water and wastewater plants, monthly testing, completing and submitting DEP reports, meeting with DEP inspectors, sludge hauling and testing, and performing emergency repairs and other utility services requested by the Utility. Also, due to the distance of the service area from other UI facilities, all after hours, weekend, and emergency work is handled by the contract operator, whose offices are approximately a half hour from the Lake Placid water and wastewater plants. The contract operator's rate for additional work is \$75 per hour. However, the contract operator will often charge a reduced rate if the additional requested work can be completed while the contract operator is on site for other assigned duties. We note that during the test year, most additional non-emergency work performed by the contract operator was charged at an hourly rate of \$45.

In addition, a second contractual service provider is responsible for monthly meter reading, and assists with other work as requested by the Utility, including work orders, turn offs, and meter variance reports. The individual performing the meter reading services is also a plant operator and former Florida Rural Water Association circuit rider who is qualified to assist with plant operation and maintenance work if needed. The contractual rates are \$400 per month for meter reading and \$20 per hour for additional requested work.

The Utility's salaried plant operator and the contract operator coordinate their work schedules to comply with DEP coverage requirements. The Utility's salaried plant operator is responsible for operation of the plants on the day he visits, but his primary responsibilities include performing scheduled repairs and completing field work, such as work orders, service orders requested by customers, and investigating customer complaints. UI has assigned two plant operators to assist at the Lake Placid facilities, one primary and one as a backup. The primary salaried plant operator is double certified in water and wastewater operations, and currently serves as the plant operator at another UI water and wastewater utility located approximately an hour and a half away from the Lake Placid systems. In the event he is unable to work at the Lake Placid systems in a given week, the second salaried plant operator attends in his place. The backup operator is certified in water operations and also serves as the plant operator at another UI water utility located approximately two hours away from the Lake Placid systems. During the test year, UI allocated 16.72 percent of the plant operator's salary and 6.25 percent of the backup plant operator's salary to Lake Placid, with the remainder being allocated to the utility systems where these individuals work the majority of their time.

The Utility implemented this approach approximately two years ago to try to improve maintenance at the plants and conduct repairs in a more routine manner. Also, this approach

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<sup>23</sup> See Rule 62-699.310, F.A.C., Classification and Staffing of Domestic Wastewater or Water Treatment Plants and Water Distribution Systems.



provides redundancy in staffing to ensure that a UI operator is available to service the plants each week. The Utility believes this approach has improved the quality of service based in part on feedback from the Utility's compliance and safety manager who inspects the plants each year.

We compared the confidential salary information for the UI employees with salary expense allocated to Lake Placid to the salary levels for comparable positions (if available) in the 2012 Water Utility Compensation Survey published by the American Water Works Association (AWWA Survey). Our review indicates that the UI test year salaries fall within reasonable ranges as provided by the AWWA Survey. In addition, we verified the percentage allocations used by UI to allocate employee salaries and wages expense to Lake Placid. Our review indicates that the Utility's efforts to reduce the outsourcing of routine repairs and field work compared to past periods have had a beneficial impact on the labor costs associated with that work when compared to the contractual service fees. Therefore, we find no further adjustments are necessary to employee salaries and wages expense. Salaries and wages – employees' expense for the test year are \$7,331 for water and \$7,390 for wastewater.

Employee Pensions and Benefits (604/704) – Lake Placid recorded pensions and benefits of \$2,014 for water and \$2,030 for wastewater for the test year. We decreased these accounts by \$67 for water and \$68 for wastewater to reflect the appropriate allocation of current annualized employee benefits. We find employee pensions and benefits expense are \$1,947 for water and \$1,962 for wastewater.

Purchased Power (615/715) – Lake Placid recorded purchased power expense of \$2,413 for water and \$3,789 for wastewater for the test year. We decreased the water account by \$45 to reflect a 1.85 percent reduction for unaccounted for water. We find a purchased power expense of \$2,368 for water and \$3,789 for wastewater.

Chemicals (618/718) – The Utility recorded chemicals expense of \$832 for water and \$839 for wastewater. Lake Placid allocated chemicals expense to the water and wastewater operations based on ERCs. We reviewed the chemicals expense based on direct deliveries to either the water or wastewater plant, and determined that the wastewater plant incurred higher chemicals expense than the water plant. Accordingly, we have decreased water by \$499 and increased wastewater by \$499 to reflect the appropriate chemicals expense based upon direct plant deliveries. Also, we decreased chemical expense for water by \$6 to reflect a 1.85 percent reduction for EUW. Our net adjustments are a \$505 decrease to water and a \$499 increase to wastewater. Therefore, we find a chemicals expense of \$327 and \$1,338 for water and wastewater, respectively.

Contractual Services - Other (636/736) – Lake Placid recorded contractual services – other expense of \$14,587 for water and \$14,704 for wastewater. The Utility allocated contractual services expense based on ERCs. A review of the contractual services expense based on direct services performed at either the water or wastewater plant indicates that the wastewater plant received a higher amount of services than the water plant. Therefore, we have decreased water by \$2,987 and increased wastewater by \$2,987 to reflect the direct contractual services – other expense for each plant. As discussed above, OPC expressed concerns about possible duplication

of services between the contract vendors and UI plant operators. Our review indicates there is no duplication of services. Our audit indicates that UI has properly expensed, capitalized, or amortized various service charges from the contract vendors depending upon the nature of the charge. We find no further adjustment is necessary to the Utility's direct contractual services – other expense. In addition, we decreased Lake Placid's allocation of Phoenix Project computer maintenance expense by a total of \$216 for water and \$219 for wastewater. The net adjustments are a \$3,203 decrease to water and a \$2,768 increase to wastewater. The resulting amounts for contractual services – other expense are \$11,384 for water and \$17,472 for wastewater.

Transportation Expense (650/750) – Lake Placid recorded transportation expense of \$792 for water and \$798 for wastewater for the test year. Based on our audit staff's supplemental workpapers, we decreased the water and wastewater accounts by \$40 to reflect the appropriate allocation of transportation expense.<sup>24</sup> As discussed above, OPC expressed concern about duplication of services between the contract vendors and UI plant operators, and suggested that the transportation expense allocated for the two plant operators should be removed. During the test year, UI allocated 16.72 percent of the primary plant operator's transportation expense and 6.25 percent of the backup plant operator's transportation expense to Lake Placid to correspond to the salary allocations, with the remainder being allocated to the utility systems where they work the majority of their time. Our review indicates there is no duplication of services, and that it is appropriate to allow both the salary and transportation allocations for the two UI plant operators. Therefore, we find transportation expense for the test year of \$752 for water and \$758 for wastewater.

Regulatory Commission Expense (665/765) – Lake Placid recorded \$5,000 for water and \$5,040 for wastewater for regulatory commission expense in these accounts, which primarily represents rate case expense from the Utility's 2009 SARC.<sup>25</sup> The 4-year amortization of that rate case expense will end on February 22, 2015, at which time the rates will be reduced to remove that expense. Regarding the current rate case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For postage, printing, and envelopes for these notices, we estimated \$139 for the customer meeting and \$90 for the final rates notice. The Utility paid a \$2,000 rate case filing fee (\$1,000 for water and \$1,000 for wastewater). The Utility also provided invoices for legal fees of \$10,802. This work related to data requests, reviewing our staff's report and recommendation, and attending the customer meeting and agenda conference. We reviewed the billing rates and hours for this expense. Based on this review, this expense is appropriate.

Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The total rate case expense including postage, notices, envelopes, legal fees, and filing fee is \$13,031, which amortized over 4 years is \$3,258. The total rate case expense is considerably less than the amounts approved in the Utility's 2006 and 2009 rate cases, which was \$70,620 and \$39,943, respectively. We allocated the annual rate case expense to the water and wastewater systems based on ERCs. The approved annual amount of rate case expense is \$1,623 for water

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<sup>24</sup> See Audit Control No. 13-296-4-2, Supplemental Audit Workpapers.

<sup>25</sup> See Order No. PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS.

and \$1,635 for wastewater associated with the instant case. When combined with existing rate case expense, the resulting balances for regulatory commission expense are \$6,623 and \$6,675 for water and wastewater, respectively.

Miscellaneous Expense (675/775) – The Utility recorded miscellaneous expense of \$2,032 for water and \$2,246 for wastewater for the test year, which was allocated to the water and wastewater operations based on ERCs. Our audit staff reviewed miscellaneous expenses based on direct services performed at the respective plants. Accordingly, staff has increased water and decreased wastewater by \$298 to reflect the appropriate miscellaneous expense based on direct services to the water and wastewater plants. In addition, staff has decreased water and wastewater by \$44 each to remove the Utility’s allocated share of non-utility miscellaneous expenses from the following subaccounts: Account Nos. 5870 – Holiday Events/Picnics, 5875 – Kitchen Supplies, 5795 – Contributions, 6205 – Travel Entertainment, and 6207 – Travel Other. This adjustment is consistent with staff’s recent recommendation in Docket No. 130212-WS regarding Cypress Lakes, a sister company. Staff’s net adjustments to miscellaneous expense are an increase of \$254 to water and a decrease of \$342 to wastewater. Staff recommends miscellaneous expense of \$2,286 for water and \$1,904 for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Based on the above adjustments, O&M expense is decreased by \$904 for water and increased by \$5,539 for wastewater. The approved adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded depreciation expense of \$18,565 for water and \$26,893 for wastewater during the test year. Our audit staff calculated a sample of depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We increased depreciation expense for wastewater by \$275 to reflect the appropriate depreciation expense.<sup>26</sup> In addition, we decreased depreciation expense by \$405 for water and \$409 for wastewater to reflect the appropriate depreciation expense allocation for vehicles. We decreased depreciation expense by a total of \$373 for water and \$391 for wastewater to reflect the appropriate Project Phoenix allocation. In addition, we decreased depreciation expense by \$48 for water and \$49 for wastewater to reflect the appropriate allocation of the Illinois and Florida Headquarters’ depreciation expense. Finally, we decreased depreciation expense by \$7,481 for wastewater to reflect the non-U&U portion of the test year depreciation expense. The net adjustments are decreases of \$826 for water and \$8,055 for wastewater, resulting in total depreciation expense of \$17,739 for water and \$18,838 for wastewater. We find CIAC amortization expense of \$7,906 and \$10,210 for water and wastewater, respectively. Therefore, we find that the net depreciation expense is \$9,833 and \$8,628 for water and wastewater, respectively.

Taxes Other Than Income (TOTI) – Lake Placid recorded a TOTI balance of \$6,717 for water and \$6,771 for wastewater. Lake Placid allocated the test year regulatory assessment fees (RAFs) to the water and wastewater systems based on ERCs for accounting purposes, but paid test year RAFs based on the direct revenues of each system. We decreased this account by \$220

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<sup>26</sup> See Audit Control No. 13-201-2-1, Supplemental Audit Workpapers.

for water and increased it by \$352 for wastewater to reflect the appropriate test year RAFs based on direct revenues. Similarly, Lake Placid allocated test year property taxes based upon ERCs. We decreased water property taxes by \$780 and increased wastewater property taxes by \$780 to reflect the appropriate test year utility property taxes associated with each property. Also, we decreased this account by \$38 each for both water and wastewater to reflect the appropriate allocation of payroll taxes. Finally, we decreased this account by \$1,328 for wastewater to reflect the non-U&U portion of the test year utility property taxes.

The net adjustments to test year TOTI are decreases of \$1,038 and \$234 for water and wastewater, respectively. In addition, revenues have been increased by \$11,340 for water and decreased by \$1,425 for wastewater to reflect the change in revenue required to cover expenses and allow the approved return on investment. As a result, TOTI is increased by \$510 for water and decreased by \$64 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, TOTI is \$6,189 and \$6,473 for water and wastewater, respectively.

Income Tax – Lake Placid recorded income tax of \$426 for water and \$429 for wastewater. We increased water and wastewater income taxes by \$587 and \$1,243, respectively, to reflect the appropriate test year income taxes. The Utility is an 1120 C corporation and an income tax liability is anticipated in the future. To recognize the Utility’s tax liability on a prospective basis, we increased water income taxes by \$2,080 and decreased wastewater income taxes by \$261. These adjustments result in income tax expense of \$3,094 for water and \$1,412 for wastewater.

Operating Expenses Summary – The application of our approved adjustments to Lake Placid’s test year operating expenses results in operating expenses of \$56,106 for water and \$63,581 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C, 3-D, and 3-E.

### **VIII. Revenue Requirement**

Lake Placid is allowed an annual increase of \$11,340 for water (19.63 percent) and an annual decrease of \$1,425 for wastewater (2.01 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.99 percent return on its investment. The calculations are shown in Tables 8-1 and 8-2 for water and wastewater, respectively:

Table 8-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$162,841
Rate of Return	<u>x 7.99%</u>
Return on Rate Base	\$13,011
Adjusted O&M Expense	36,991
Depreciation Expense (Net)	9,833

Taxes Other Than Income	6,189
Income Taxes	<u>3,094</u>
Revenue Requirement	\$69,118
Less Adjusted Test Year Revenues	<u>57,778</u>
Annual Increase	<u>\$11,340</u>
Percent Increase	<u>19.63%</u>

Table 8-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$74,266
Rate of Return	<u>7.99%</u>
Return on Rate Base	\$5,934
Adjusted O&M Expense	47,069
Depreciation Expense (Net)	8,628
Taxes Other Than Income	6,473
Income Tax	<u>1,412</u>
Revenue Requirement	\$69,515
Less Adjusted Test Year Revenues	<u>\$70,940</u>
Annual Decrease	<u>(\$1,425)</u>
Percent Decrease	<u>(2.01%)</u>

## **IX. Water and Wastewater Rate Structure and Rates**

### Water Rates

The Utility is located in Highlands County within the SWFWMD. The Utility provides water service to approximately 105 residential customers, and 15 general service customers. Approximately 39 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 1,798 gallons per month. The average residential water demand, excluding zero gallon bills, is 2,924 gallons per month. Currently, Lake Placid's water system rate structure consists of a base facility charge (BFC) and gallonage charge for both residential and general service customers.

An analysis was performed 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 the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression, and (4) implement, where appropriate, water conserving rate structures consistent with our practice.

Due to the customers' low average monthly consumption and the seasonal nature of the customers, we find that 54 percent of the water revenues shall be generated from the BFC in order to ensure that the Utility will have sufficient cash flow to cover fixed costs. The average number of persons per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage is approximately 4,000 gallons per month. However, because the average demand is low, the expected repression related to discretionary usage would be insignificant. As a result, there is no need for a non-discretionary threshold or a repression adjustment. We find a continuation of a traditional BFC and gallonage charge rate structure for both residential and general service customers. Our approved rate structures and rates are shown on Schedule Nos. 4-A and 4-B.

#### Wastewater Rates

The Utility provides wastewater service to approximately 105 residential customers, 12 general service customers, a bulk service customer that serves 70 units at Deeann Estates, and 3 unmetered flat rate customers. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer, Deeann Estates, is billed a BFC based on 80 percent of the number of equivalent residential connections (ERCs) connected to the system. Each unit is .6 ERC per Order No. PSC-07-0287-PAA-WS, issued on April 3, 2007.<sup>27</sup> The gallonage charge for the bulk service customer is 80 percent of the general service gallonage charge. The 3 unmetered residential wastewater customers are billed a flat rate.

We performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers the amount of water that may return to the wastewater system.

The approved BFC recovers approximately 50 percent of the revenue requirement, consistent with our practice. Currently, the Utility has a gallonage cap for residential wastewater customers of 6,000 gallons. Based on the billing data, we find the existing gallonage cap shall

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<sup>27</sup> Issued in Docket No. 060260-WS.

continue at 6,000 gallons. There is no cap for general service customers. Furthermore, we find the general service gallonage charge remain at 1.2 times greater than the residential gallonage charge.

In prior cases, we found Deeann Estates' rate structure shall take into consideration that it owns its lift station, and the cost associated with the electrical pumping and maintenance of the lift station are the customer's responsibility and not Lake Placid's.<sup>28</sup> As result, we find the BFC for Deeann Estates continue to be based on 80 percent of the number of ERCs connected to the system. The gallonage charge for the bulk service customer is continued at 80 percent of the general service gallonage charge. The 3 unmetered residential wastewater customers shall continue a flat rate. The rate design and rates for the wastewater system are shown on Schedule Nos. 4-C and 4-D.

The 3 unmetered residential wastewater customers shall continue a flat rate based on the average residential water demand of 1,794 gallons per month. The rate design for the wastewater system is shown on Schedule Nos. 4-C and 4-D.

### Summary

Based on the foregoing, we find 54 percent of the water revenues are generated from the BFC. A repression adjustment for residential customers is not warranted in this case. The traditional BFC and gallonage charge rate structure is approved for residential and general service customers.

We find that the residential wastewater customers' rate structure consist of a BFC for all meter sizes, based on a 50 percent allocation of wastewater revenue from the BFC, with a cap of 6,000 gallons. The general service wastewater customers shall continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer shall continue to be billed a BFC based on 80 percent of the number of ERCs actually connected to the system. The bulk customer's gallonage charge is at 80 percent of the general service gallonage charge. The Utility shall continue to bill the 3 unmetered residential wastewater customers a flat rate.

The approved rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

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<sup>28</sup> See Order Nos. PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS, and PSC-07-0287-PAA-WS, issued in Docket No. 060260-WS.

### **X. Initial Customer Deposits**

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to two times the average estimated bill.<sup>29</sup> Currently, the Utility's existing initial deposits are \$12 for both water and wastewater. Based on our approved rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. We find the existing initial customer deposit is increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered from the cost causer.<sup>30</sup>

The appropriate initial customer deposits is \$60 and \$50 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 is two times the average estimated bill for water and wastewater. The approved customer deposits is 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 shall be required to charge the approved charges until authorized to change them by us in a subsequent proceeding.

### **XI. Late Payment Charges**

Section 367.091, F.S., authorizes us to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

Approximately 3.33 percent of Lake Placid's bills are delinquent on a monthly basis. The Utility's requested charge is based on an aggregate of all UI's (the parent company) systems in Florida. The late payment notices are processed by the same parent company staff for all systems in Florida. The Utility indicated that it takes its parent company two hours per day for three days to process late payment notices. The parent company employee's salary is \$39 per hour, which results in total labor cost of \$234 (3 days x 2 hours x \$39). The parent company's costs are allocated on a per equivalent residential connection basis. The average allocation of the labor costs to the Florida systems is 1.94 percent, which results in \$4.54 (\$234 x 1.94%). We find the cost justification provided by the Utility is reasonable in support of the requested \$5.25 late payment charge. The cost basis for late payment charge, including labor, is shown below.

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<sup>29</sup> See Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

<sup>30</sup> See Order Nos. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.



Table 11-1

Cost Basis for Late Payment Charge	
Labor	\$4.54
Printing	0.20
Postage	<u>0.49</u>
Total	<u>\$5.23</u>

Based on research, since the late 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00.<sup>31</sup> The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, we find that Lake Placid's request to implement a \$5.25 late payment charge is approved. Lake Placid is required to file a proposed customer notice to reflect our approved charge. The approved charge shall 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 shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

## **XII. Rate Reduction for Amortized Rate Case Expense**

### **(Final Agency Action)**

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 RAFs. The total reductions are \$1,716 for water and \$1,729 for wastewater.

The water and wastewater rates are reduced as shown on Schedule Nos. 4-B and 4-D to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration

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<sup>31</sup> See Order Nos. PSC-01-2101-TRF-WS, issued October 22, 2001, in Docket No. 011122-WS, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.; PSC-08-0255-PAA-WS, issued April 24, 2008, in Docket No. 070391-WS, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; PSC-09-0752-PAA-WU, issued November 16, 2009, in Docket No. 090185-WU, In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.; PSC-10-0257-TRF-WU, issued April 26, 2010, in Docket No. 090429-WU, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, issued April 25, 2011, in Docket No. 100413-SU, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.

of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Lake Placid is 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 shall 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.

### **XIII. Temporary Rates**

#### **(Final Agency Action)**

By this Order, we propose an increase in water rates and a decrease in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, water rates and current wastewater rates are approved as temporary rates. Further, pursuant to Section 367.0814(6) F.S., in the event of a protest of the wastewater decrease by the Utility, the current wastewater rates are approved as temporary rates.<sup>32</sup> Lake Placid shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates are 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 temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved water and current wastewater rates collected by the Utility is subject to the refund provisions discussed below.

The Utility is authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a corporate undertaking secured by UI in the amount of \$8,513 in the event of a protest by a party other than the Utility, or \$773 in the event of a protest of the wastewater decrease by the Utility.

Lake Placid is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the maximum amount subject to refund for the Utility, the incremental increase in UI's corporate undertaking is \$8,513. The current cumulative corporate undertaking amount outstanding for other UI systems is \$49,622.<sup>33</sup> The new request will bring the cumulative amount outstanding to \$58,133.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We reviewed UI's 2010, 2011, and 2012 financial statements to determine if the Company can support a corporate

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<sup>32</sup> Section 367.0814(6), F.S., states, "The utility, in requesting staff assistance, shall agree to accept the final rates and charges approved by the Commission unless the final rates and charges produce less revenue than the existing rates and charges."

<sup>33</sup> By Order No. PSC-13-0673-FOF-WS, we approved an annual interim revenue increase of \$85,052 for water for Cypress Lakes Utilities, Inc. which is also a wholly-owned subsidiary of UI. Specifically, we approved a corporate undertaking of \$49,622 to secure the interim rate increase granted.

undertaking on behalf of its subsidiary. UI reported negative working capital in 2012. However, in all other time periods, the Company achieved sufficient liquidity and interest coverage ratios. In addition, UI reported adequate ownership equity over the three-year review period. UI also reported net income in excess of \$5 million a year in all periods.

UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, a cumulative corporate undertaking of \$58,133 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities).

Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with this Commission's Office of Commission Clerk no later than the 20th day of each month indicating the monthly and total revenue collected subject to refund. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, the Utility.

#### **XIV. Adjusting Books to Reflect Commission's Decision**

To ensure that the Utility adjusts its books in accordance with our decision, Lake Placid shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Lake Placid Utilities, Inc.'s application for an increase in rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated by reference. It is further

ORDERED that, subject to the conditions set forth in the body of this Order, the rate structure and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D, respectively are hereby approved. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Along with the customer notice, the Utility shall provide customers their most recent three months usage. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, water and wastewater rates shall be reduced as shown on Schedule Nos. 4-B and 4-D to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. (Final Agency Action) It is further

ORDERED that, subject to conditions set forth in the body of this Order, the water rates approved for Lake Placid Utilities, Inc., are also approved on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than Lake Placid Utilities, Inc. Further, pursuant to Section 367.0814(6), F.S., continuation of the current wastewater rates are approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest of the wastewater decrease by the Utility. (Final Agency Action) It is further

ORDERED that Lake Placid Utilities, Inc. shall provide proof, within 90 days of the Final Order in this Docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this Docket shall remain open for our staff to verify that the revised tariff sheets and customer notice have been filed by Lake Placid Utilities, Inc. and to review and approve such filings. Once these actions are complete, this Docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 30th day of June, 2014.



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HONG WANG  
Chief Deputy Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

**Except as identified in the body of this Order at Sections XII and XIII, and reflected in corresponding ordering paragraphs,** our action in this matter is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 21, 2014. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this Order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

**Any party adversely affected by the Commission's final action in this matter, identified in Sections XII and XIII and reflected in the corresponding ordering paragraphs,** may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this Order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>COMMISSION ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER COMMISSION</b>
UTILITY PLANT IN SERVICE	\$495,095	(\$9,366)	\$485,729
LAND & LAND RIGHTS	2,796	0	2,796
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(235,199)	0	(235,199)
ACCUMULATED DEPRECIATION	(184,889)	15,082	(169,807)
AMORTIZATION OF CIAC	78,650	(3,953)	74,697
WORKING CAPITAL ALLOWANCE	0	<u>4,655</u>	<u>4,624</u>
<b>WATER RATE BASE</b>	<b><u>\$156,453</u></b>	<b><u>\$6,419</u></b>	<b><u>\$162,841</u></b>

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>COMMISSION ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER COMMISSION</b>
UTILITY PLANT IN SERVICE	\$798,135	(\$5,528)	\$792,607
LAND & LAND RIGHTS	21,665	0	21,665
NON-USED AND USEFUL COMPONENTS	0	(97,006)	(97,006)
CIAC	(335,881)	0	(335,881)
ACCUMULATED DEPRECIATION	(575,669)	111,860	(463,809)
AMORTIZATION OF CIAC	155,911	(5,105)	150,806
WORKING CAPITAL ALLOWANCE	0	<u>5,915</u>	<u>5,884</u>
<b>WASTEWATER RATE BASE</b>	<b><u>\$64,161</u></b>	<b><u>\$10,136</u></b>	<b><u>\$74,266</u></b>



<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>		<b>PAGE 1 OF 1</b>	
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect appropriate allocation of vehicles.	(\$3,367)	(\$3,394)	
2. To reflect appropriate Phoenix Project allocation per Order No. PSC-10-0407-PAA-SU and for 2010-2012 divestitures.	(1,325)	(1,478)	
3. To reflect appropriate allocation of Illinois and Florida Headquarters' plant.	(560)	(564)	
4. To reflect an averaging adjustment.	<u>(4,114)</u>	<u>(92)</u>	
Total	<u>(\$9,366)</u>	<u>(\$5,528)</u>	
<b><u>NON-USED AND USEFUL PLANT</u></b>			
1. To reflect non-U&U plant.	\$0	(\$208,657)	
2. To reflect non-U&U accumulated depreciation.	<u>0</u>	<u>111,651</u>	
Total	<u>\$0</u>	<u>(\$97,006)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect appropriate accumulated depreciation for Acct. No. 351.	\$0	\$92,884	
2. To reflect appropriate allocation of vehicles.	2,236	2,254	
3. To reflect appropriate Phoenix Project allocation per Order No. PSC-10-0407-PAA-SU and for 2010-2012 divestitures.	1,288	1,305	
4. To reflect appropriate allocation of Illinois and Florida Headquarters' plant.	901	909	
5. To reflect an averaging adjustment.	<u>10,657</u>	<u>14,507</u>	
Total	<u>\$15,082</u>	<u>\$111,860</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
To reflect an averaging adjustment.	<u>(\$3,953)</u>	<u>(\$5,105)</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O&M expenses.	<u>\$4,624</u>	<u>\$5,884</u>	

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 130243-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS*	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	<u>\$170,132,500</u>	<u>\$0</u>	<u>\$170,132,500</u>	(\$170,024,119)	\$108,351	45.70%	10.45%	4.77%	
2. LONG-TERM DEBT	\$180,000,000	\$0	\$180,000,000	(\$179,885,333)	\$114,635	48.35%	6.64%	3.21%	
3. SHORT-TERM DEBT	<u>250,000</u>	<u>0</u>	<u>250,000</u>	<u>(249,841)</u>	<u>159</u>	<u>0.07%</u>	0.00%	0.00%	
TOTAL DEBT	\$180,250,000	\$0	\$180,250,000	(\$180,135,174)	\$114,826	48.42%			
4. CUSTOMER DEPOSITS	<u>\$770</u>	<u>\$0</u>	<u>\$770</u>		<u>\$770</u>	<u>0.32%</u>	2.00%	<u>0.01%</u>	
5. DEFERRED INCOME TAXES	<u>(\$22,175)</u>	<u>\$35,366</u>	<u>\$13,191</u>		<u>\$13,191</u>	<u>5.56%</u>	<u>0.00%</u>	<u>0.00%</u>	
6. TOTAL	<u>\$350,361,095</u>	<u>\$35,366</u>	<u>\$350,396,461</u>	<u>(\$350,159,355)</u>	<u>\$237,106</u>	<u>100.00%</u>	<u>19.09%</u>	<u>7.99%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>9.45%</u>	<u>11.45%</u>		
OVERALL RATE OF RETURN						<u>7.53%</u>	<u>8.45%</u>		
<p>Note: Common equity, long-term debt, and short-term debt are actual for Lake Placid Utilities, Inc.'s parent company, UI, and customer deposits and accumulated deferred income taxes are actual for Lake Placid Utilities, Inc.</p>									

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12 SCHEDULE OF WATER OPERATING INCOME					SCHEDULE NO. 3-A DOCKET NO. 130243-WS	
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$57,538</u>	<u>\$240</u>	<u>\$57,778</u>	<u>\$11,340</u> 19.63%	<u>\$69,118</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$37,895	(\$904)	\$36,991	\$0	\$36,991	
3. DEPRECIATION (NET)	10,659	(826)	9,833	0	9,833	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	6,717	(1,038)	5,679	510	6,189	
6. INCOME TAXES	<u>426</u>	<u>587</u>	<u>1013</u>	<u>2,080</u>	<u>3,094</u>	
7. TOTAL OPERATING EXPENSES	<u>\$55,697</u>	<u>(\$2,181)</u>	<u>\$53,516</u>	<u>\$2,591</u>	<u>\$56,106</u>	
8. OPERATING INCOME/(LOSS)	<u>\$1,841</u>		<u>\$4,262</u>		<u>\$13,011</u>	
9. WATER RATE BASE	<u>\$156,453</u>		<u>\$162,841</u>		<u>\$162,841</u>	
10. RATE OF RETURN	<u>1.18%</u>		<u>2.62%</u>		<u>7.99%</u>	

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12 SCHEDULE OF WASTEWATER OPERATING INCOME					SCHEDULE NO. 3-B DOCKET NO. 130243-WS	
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$70,751</u>	<u>\$189</u>	<u>\$70,940</u>	<u>(\$1,425)</u> (2.01%)	<u>\$69,515</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$41,530	\$5,790	\$47,069	\$0	\$47,069	
3. DEPRECIATION (NET)	16,683	(8,055)	8,628	0	8,628	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	6,771	(234)	6,537	(64)	6,473	
6. INCOME TAXES	<u>429</u>	<u>1,243</u>	<u>1,672</u>	<u>(261)</u>	<u>1,412</u>	
7. TOTAL OPERATING EXPENSES	<u>\$65,413</u>	<u>(\$1,304)</u>	<u>\$69,906</u>	<u>(\$326)</u>	<u>\$63,581</u>	
8. OPERATING INCOME/(LOSS)	<u>\$5,338</u>		<u>\$7,034</u>		<u>\$5,934</u>	
9. WASTEWATER RATE BASE	<u>\$64,161</u>		<u>\$74,266</u>		<u>\$74,266</u>	
10. RATE OF RETURN	<u>8.32%</u>		<u>9.47%</u>		<u>7.99%</u>	

<b>LAKE PLACID UTILITIES, INC.</b>		<b>Schedule No. 3-C</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 2</b>	
		<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>			
	To reflect the appropriate test year services revenues.	<u>\$240</u>	<u>\$189</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
1.	Salaries and Wages - Employees (601/701)		
	a. To reflect appropriate allocation of annualized salaries.	<u>\$1,078</u>	<u>\$1,087</u>
2.	Employee Pensions and Benefits (604/704)		
	a. To reflect appropriate allocation of annualized employee benefits.	<u>(\$67)</u>	<u>(\$68)</u>
3.	Purchased Power (615)		
	a. To reflect EUW adjustment.	<u>(\$45)</u>	<u>\$0</u>
4.	Chemicals (618/718)		
	a. To reflect chemicals expense based on direct deliveries to each plant.	(\$499)	\$499
	b. To reflect EUW adjustment.	<u>(6)</u>	<u>0</u>
	Subtotal	<u>(\$505)</u>	<u>\$499</u>
5.	Contractual Services - Other (636/736)		
	a. To reflect appropriate contractual services expense based on direct service performed at each plant.	(\$2,987)	\$2,987
	b. To reflect Phoenix Project computer maintenance expense (5-year average).	(208)	(210)
	c. To reflect Phoenix Project computer maintenance expense adjustment for pre-2010 and 2010-2012 divestitures.	<u>(8)</u>	<u>(9)</u>
	Subtotal	<u>(\$3,203)</u>	<u>\$2,768</u>
6.	Transportation Expense (650/750)		
	a. To reflect appropriate transportation expense allocation.	<u>(\$40)</u>	<u>(\$40)</u>
7.	Regulatory Commission Expense (665/765)		
	a. To reflect 4-year amortization of rate case expense (\$7,489/4 for water and \$7,543/4 for wastewater).	<u>\$1,623</u>	<u>\$1,635</u>
8.	Miscellaneous Expense (675/775)		
	a. To reflect miscellaneous expense based on direct services to each plant.	\$298	(\$298)
	b. To reflect appropriate allocation of miscellaneous expense.	<u>(44)</u>	<u>(44)</u>
	Subtotal	<u>\$254</u>	<u>(\$342)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<u>(\$904)</u>	<u>\$5,539</u>

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12 ADJUSTMENTS TO OPERATING INCOME		Schedule No. 3-C DOCKET NO. 130243-WS Page 2 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<b>DEPRECIATION EXPENSE</b>			
1.	To reflect appropriate depreciation expense for Acct. No. 351.	\$0	\$275
2.	To reflect depreciation expense allocation for vehicles.	(405)	(409)
3.	To reflect Phoenix Project allocation per Order No. PSC-10-0407-PAA-SU and for 2010-2012 divestitures.	(373)	(391)
4.	To reflect Illinois/Florida Headquarters' depreciation expense allocation.	(48)	(49)
5.	To reflect non-U&U depreciation expense.	<u>0</u>	<u>(7,481)</u>
	Total	<u>(\$826)</u>	<u>(\$8,055)</u>
<b>TAXES OTHER THAN INCOME</b>			
1.	To reflect the appropriate test year RAFs.	(\$220)	\$352
2.	To reflect appropriate test year utility property taxes.	(780)	780
3.	To reflect appropriate allocation of payroll taxes.	(38)	(38)
4.	To reflect non-U&U property taxes.	<u>0</u>	<u>(1,328)</u>
	Total	<u>(\$1,038)</u>	<u>(\$234)</u>
<b>INCOME TAX</b>			
	To reflect the appropriate test year income tax expense.	<u>\$587</u>	<u>\$1,243</u>

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 3-D</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$6,253	\$1,078	\$7,331
(603) SALARIES AND WAGES - OFFICERS	761	0	761
(604) EMPLOYEE PENSIONS AND BENEFITS	2,014	(67)	1,947
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,413	(45)	2,368
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	832	(505)	327
(620) MATERIALS AND SUPPLIES	1,566	0	1,566
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	253	0	253
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	14,587	(3,203)	11,384
(640) RENTS	12	0	12
(650) TRANSPORTATION EXPENSE	792	(40)	752
(655) INSURANCE EXPENSE	1,039	0	1,039
(665) REGULATORY COMMISSION EXPENSE	5,000	1,623	6,623
(670) BAD DEBT EXPENSE	341	0	341
(675) MISCELLANEOUS EXPENSE	<u>2,032</u>	<u>254</u>	<u>2,286</u>
	<u>\$37,895</u>	<u>(\$904)</u>	<u>\$36,991</u>

<b>LAKE PLACID UTILITIES, INC.</b>	<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED 12/31/12</b>	<b>DOCKET NO. 130243-WS</b>		
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$6,303	\$1,087	\$7,390
(703) SALARIES AND WAGES - OFFICERS	767	0	767
(704) EMPLOYEE PENSIONS AND BENEFITS	2,030	(68)	1,962
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,848	0	1,848
(715) PURCHASED POWER	3,789	0	3,789
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	839	499	1,338
(720) MATERIALS AND SUPPLIES	1,507	0	1,507
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	255	0	255
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	14,704	2,768	17,472
(740) RENTS	12	0	12
(750) TRANSPORTATION EXPENSE	798	(40)	758
(755) INSURANCE EXPENSE	1,048	0	1,048
(765) REGULATORY COMMISSION EXPENSE	5,040	1,635	6,675
(770) BAD DEBT EXPENSE	344	0	344
(775) MISCELLANEOUS EXPENSE	<u>2,246</u>	<u>(342)</u>	<u>1,904</u>
	<u>\$41,530</u>	<u>\$5,539</u>	<u>\$47,069</u>



<b>LAKE PLACID UTILITIES, INC.</b> <b>TEST YEAR ENDED 12/31/12</b>		<b>SCHEDULE NO. 4-A</b> <b>DOCKET NO. 130243-WS</b>	
<b>LAKE PLACID UTILITIES, INC.</b> <b>COMMISSION APPROVED</b> <b>WATER RATE STRUCTURE AND RATES</b>			
Test Year Rate Structure and Rates		Approved Rate Structure and Rates	
BFC/ gallonage rate structure BFC generated from current rates = 54%		BFC/ gallonage rate structure BFC = 54%	
BFC	\$13.85	BFC	\$16.51
Per 1,000 gallons (kgal)	\$5.80	Per 1 kgal	\$6.99
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$13.85	0	\$16.51
1	\$19.65	1	\$23.50
2	\$25.45	2	\$30.49
3	\$31.25	3	\$37.48
4	\$37.05	4	\$44.47
5	\$42.85	5	\$51.46
6	\$48.65	6	\$58.45
10	\$71.85	10	\$86.41

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY EXISTING RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$13.85	\$16.51	\$0.41
3/4"	\$20.78	\$24.77	\$0.62
1"	\$34.63	\$41.28	\$1.03
1-1/2"	\$69.26	\$82.55	\$2.06
2"	\$110.81	\$132.08	\$3.30
3"	\$221.63	\$264.16	\$6.60
4"	\$346.30	\$412.75	\$10.32
6"	\$692.60	\$825.50	\$20.64
Charge per 1,000 Gallons	\$5.80	\$6.99	\$0.17
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$31.25	\$37.48	
6,000 Gallons	\$48.65	\$58.45	
10,000 Gallons	\$71.85	\$86.41	

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12		SCHEDULE NO. 4-C DOCKET NO. 130243-WS	
<b>LAKE PLACID UTILITIES, INC.                      COMMISSION APPROVED                      WASTEWATER RATE STRUCTURE AND RATES</b>			
Test Year Rate Structure and Rates		Approved Rate Structure and Rates	
Monthly BFC/uniform kgals charge BFC generated from current rates = 50%		Monthly BFC/uniform kgals charge BFC = 50%	
BFC	\$13.94	BFC	\$13.06
per 1 kgal	\$5.75	per 1 kgal	\$5.94
(6 kgal cap)		(6 kgal cap)	
Flat Rate		Flat Rate	
	\$27.72		\$23.72
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$13.94	0	\$13.06
1	\$19.69	1	\$19.00
2	\$25.44	2	\$24.94
3	\$31.19	3	\$30.88
4	\$36.94	4	\$36.82
5	\$42.69	5	\$42.76
6	\$48.44	6	\$48.70
10	\$48.44	10	\$48.70

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 4-D</b>	
<b>TEST YEAR ENDED 12/31/12</b>		<b>DOCKET NO. 130243-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY EXISTING RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes	\$13.94	\$13.06	\$0.33
Charge per 1,000 Gallons- Residential*			
*6,000 gallon cap	\$5.75	\$5.94	\$0.15
Flat Rate	\$27.72	\$23.72	\$0.59
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$13.94	\$13.06	\$0.33
3/4"	\$20.91	\$19.59	\$0.49
1"	\$34.82	\$32.65	\$ 0.82
1-1/2"	\$69.65	\$65.30	\$1.63
2"	\$111.44	\$104.48	\$2.61
3"	\$222.87	\$208.96	\$5.22
4"	\$348.24	\$326.50	\$8.16
6"	\$696.46	\$653.00	\$16.33
Charge per 1,000 Gallons - General Service	\$6.90	\$7.12	\$0.18
<b><u>Bulk Service</u></b>			
Deeann Estates	\$474.62	\$438.82	\$10.97
Charge per 1,000 gallons	\$5.52	\$5.70	\$0.14
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$31.19	\$30.88	
6,000 Gallons	\$48.44	\$48.70	
10,000 Gallons	\$48.44	\$48.70	