

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos) *MR. ST* *ED* *12/11* *MC* *CR*
Division of Accounting and Finance (Bulecza-Banks, Buys, Smith II)
Division of Engineering (Graves, Knoblauch) *EX*
Office of the General Counsel (Simmons, Crawford) *KS* *TJ* *for JC*

RE: Docket No. 20190031-WU – Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action, Except for Issues 15 and 16 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 5-Month Effective Date Waived Through 12/10/19

SPECIAL INSTRUCTIONS: None

RECEIVED-FPSC
2019 NOV 26 AM 11:03
COMMISSION
CLERK

Table of Contents

Issue	Description	Page
	Case Background.....	3
1	Quality of Service (Knoblauch).....	4
2	Used and Useful (Knoblauch)	6
3	Pro Forma Plant Additions (Knoblauch, Smith II).....	8
4	Working Capital Allowance (Smith II)	10
5	Rate Base (Smith II)	11
6	Return on Equity (Smith II).....	12
7	Cost of Capital (Smith II)	13
8	Test Year Revenues (Ramos)	14
9	O&M Expense (Knoblauch, Smith II).....	15
10	Rate Case Expense (Smith II).....	16
11	Revenue Requirement (Smith II).....	18
12	Rates and Rate Structure (Ramos).....	19
13	Private Fire Protection (Ramos)	20
14	Rate Case Expense (Ramos, Smith II)	21
15	Proof of Adjustments (Smith II).....	22
16	Docket Closure (Simmons)	23
	Schedule No. 1-A Water Rate Base	24
	Schedule No. 1-B Adjustments to Rate Base	25
	Schedule No. 2 Capital Structure 13-Month Average.....	26
	Schedule No. 3-A Statement of Water Operations.....	27
	Schedule No. 3-B Adjustment to Operating Income.....	28
	Schedule No. 4 Monthly Water Rates	29

Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or utility) is a Class B water utility providing service to approximately 2,000 customers in Highlands County. Placid Lakes is located in the Southwest Florida Water Management District (SWFWMD) as a critical use area. The utility's water rates were last established in its 2013 rate proceeding.¹ Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2018 annual report, the utility reported operating revenues of \$668,899 and a net operating loss of \$12,020.

On May 13, 2019, Placid Lakes filed an application with the Florida Public Service Commission (Commission) for an increase in water rates. Accompanying the utility's application were minimum filing requirement schedules (MFRs) required by Rule 25-30.346, Florida Administrative Code (F.A.C.).

The utility had a few deficiencies within its MFRs. The deficiencies were corrected and June 21, 2019, was established as the official filing date. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The historic test year established for final rates is the historical twelve-month period ended December 31, 2018. Additionally, within its application, the utility requested interim rates. By Order No. PSC-2019-0286-PCO-WU, the Commission suspended the final water rates proposed by the utility to allow staff sufficient time to process this case and approved an across-the-board interim rate increase of 4.52 percent.² In its filing, the utility requested a final revenue increase of \$97,116 (14.5 percent).

The five-month statutory deadline for the Commission to address the utility's requested final rates was November 21, 2019. However, by letter dated September 10, 2019, Placid Lakes waived the statutory time frame by which the Commission is required to address the utility's final requested rates through December 10, 2019.

This recommendation addresses Placid Lakes' request for final rates. The Commission has jurisdiction pursuant to Sections 367.081, 367.0812, and 367.091, Florida Statutes (F.S.).

¹Order No. PSC-2013-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

²Order No. PSC-2019-0286-PCO-WU, issued July 18, 2019, in Docket No. 20190031-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Discussion of Issues

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

Recommendation: Yes. Staff recommends the overall quality of service provided by Placid Lakes be considered satisfactory. (Knoblauch, Doehling)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., the Commission, in every rate case, “shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility’s product (water) and the utility’s attempt to address customer satisfaction (water and wastewater).” The rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials’ testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Quality of the Utility’s Product

In the evaluation of Placid Lakes’ product quality, staff reviewed the utility’s compliance with the DEP’s primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. As provided in Placid Lakes’ MFRs, the utility entered into a consent order with the DEP on November 19, 2018, for exceedances of the maximum contaminant levels (MCLs) for disinfection byproducts. In response to a staff data request, the utility indicated that a new hydrogen peroxide treatment system, to address the disinfection byproducts exceedances, was accepted by the DEP on April 17, 2019, and was placed into service in early May 2019.

Based on the most recent test results dated May 16, 2019, and following the installation of the new treatment system, the disinfection byproducts were below the MCLs. The utility appears to have met the conditions of the consent order, and in correspondence with staff, the DEP stated that Placid Lakes is no longer on quarterly monitoring for disinfection byproducts. The most recent chemical analyses results for all other contaminants were dated May 5, 2017, and were in compliance with the DEP’s drinking water standards.

Staff requested complaints from the DEP for the test year and four years preceding the test year, and received four complaints. One of the complaints, dated April 20, 2017, cited a concern regarding the level of phosphate in the water; however, the DEP reported that the results had been incorrectly interpreted and no further action was recorded. Two of the complaints, made in 2018 and 2019, stated issues with the taste, odor, and residue in the water, while the last complaint was made in 2018 and questioned the safety of the water due to the noticing of disinfection byproducts exceedances. The utility was issued a construction permit by the DEP for plant improvements to address the formation of disinfection byproducts, as well as taste and odor issues from hydrogen sulfide. Additionally, the DEP requested that the utility increase its distribution system flushing until the improvements were complete.

In its MFRs, Placid Lakes provided 66 work orders in response to customer complaints that the utility received directly for the period of 2014-2018. Out of the 66 work orders, six were related to the color or smell of the water, and one work order was related to water quality testing. The

utility addressed the color and smell issues with flushing, and indicated that the water quality test was checked by utility personnel. The remaining 59 work orders were regarding flushing and are discussed below.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records for the test year and four years prior, and found four complaints. The complaints were received in 2014, 2016, 2017, and 2018, and were all related to billing. The complaints were forwarded to the utility for resolution, and each complaint has been closed. Correspondence from one customer dated July 22, 2019, was filed in the docket. The letter stated that Placid Lake's customers were told that the water was unsafe to drink the previous year, and no update on the water status had been provided. Based on DEP records, notices were mailed out on August 15, 2018, advising of the disinfection byproducts exceedances. However, as discussed above, the utility has implemented a new treatment system in order to address the issues with disinfection byproducts.

A customer meeting was held on April 30, 2018, where two customers provided comments. One customer discussed a reoccurring issue regarding a water leak at their meter, and the second customer voiced concerns about inadequate flushing. In response, the utility provided that for the customer who had experienced water leaks, the leak had been repaired by replacing the valve inside the meter box. In regards to flushing, the utility stated that it has 160 blow-off locations at the end of lines, and 30 of the locations are automatically flushed once a month. The remaining 130 locations are flushed twice a year to every 3 months, or more often if needed.

Following the conclusion of the customer meeting, a third customer provided a water sample, which was given to the utility and photos of the sample were placed in the docket. In response to staff's third data request, Placid Lakes indicated that an abnormal break had occurred, and there was a chance of sediment and loose iron pieces traveling into the lines. However, the utility stated that it had repeatedly flushed the lines and has "passed all testing at the lab deeming the water safe for human consumption."

As discussed above, Placid Lakes provided 66 work orders in response to customer complaints that the utility received for the period of 2014-2018. Out of the 66 work orders, all but 7 identified inadequate flushing as the area of concern, and these complaints were addressed by the utility with additional flushing of the lines. As discussed previously, the seven other work orders were related to the quality of the water.

Conclusion

Placid Lakes has taken action to address the disinfection byproduct exceedances addressed in a DEP consent order dated November 19, 2018. Based on the most recent test results for disinfection byproducts and chemical analyses, all contaminants were in compliance with the DEP's drinking water standards. Additionally, the utility appears to be responding adequately to the concerns of its customers. Therefore, staff recommends the overall quality of service provided by Placid Lakes be considered satisfactory.

Issue 2: What are the used and useful (U&U) percentages for Placid Lakes' water treatment plant (WTP), storage, and distribution system?

Recommendation: Staff recommends Placid Lakes' WTP and storage be considered 100 percent U&U, and the water distribution system be considered 79.09 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch)

Staff Analysis: Placid Lakes' WTP has three wells rated at a combined total of 1,550 gallons per minute (gpm) pumping capacity. The utility's water system has two ground storage tanks with a total capacity of 300,000 gallons, and three hydropneumatic tanks with a total capacity of 45,000 gallons. The distribution system is comprised of varying sizes of polyvinyl chloride (PVC) and asbestos-cement pipes.

The U&U for Placid Lakes' water treatment plant, storage, and distribution system were last determined in Order No. PSC-13-0646-PAA-WU.³ In that Order, the Commission found Placid Lakes' water treatment plant and storage to be 100 percent U&U. For the distribution system, the Commission determined the U&U to be 79.09 percent using a non-traditional methodology.

Water Treatment Plant and Storage Used and Useful

As noted above, the Commission found both the WTP and the storage to be 100 percent U&U in the prior rate proceeding. The utility has not increased the capacity of its WTP or storage since its last rate case. Therefore, consistent with the Commission's previous decision, staff recommends the utility's WTP and storage be considered 100 percent U&U.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., due to EUW, staff considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, and (3) the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports indicate that the utility pumped 102,783,000 gallons during the test year. In its MFRs, the utility indicated that it purchased no water and estimated 11,964,000 gallons for other uses, such as flushing, valve exercises, and customer leak adjustments. According to the staff audit report, the utility sold 84,389,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, 6,430,000 gallons are unaccounted for. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 6.3 percent; since this is less than 10 percent, there is no excessive

³Order No. PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

unaccounted for water. Accordingly, staff recommends no adjustment to purchased power and chemical expenses due to EUW.

Water Distribution System Used and Useful

In Placid Lakes' 2000 Rate Case, the Commission found the utility's distribution system to be 76.37 percent U&U.⁴ In that case, the Commission considered all lines larger than six inches in diameter as 100 percent U&U. Smaller lines were evaluated by comparing the number of connected lots to the number of lots the lines are able to serve. These percentages were then multiplied by the original installed cost of the line, and the sum of these values was compared to the original installed cost of the distribution system, to generate a U&U percent value of 76.37 percent. The Commission noted that without these additional considerations, the U&U would have been 54.99 percent.

In Placid Lakes' 2008 and 2013 Rate Cases, the Commission determined the utility's distribution system to be 79.09 percent U&U relying on the method of evaluation discussed above.⁵ In Placid Lakes' 2013 Rate Case, the Commission found that the same evaluation should be used due to a lack of changed conditions in the utility's service territory.

In its MFRs, Placid Lakes asserted that its distribution system should be considered 100 percent U&U. To support its assertion, the utility stated that there are no areas of the water transmission or distribution system which could be wholly removed without impacting the ability to reliably serve customers.

In the current rate case, the utility has not presented, nor has staff identified, a change in the conditions of the utility's service territory. Therefore, staff recommends that the Commission continue to rely on the method of evaluation first established in the 2000 Rate Case. Using this evaluation, the distribution U&U is calculated to be below the previously approved 79.09 percent. It is Commission practice to not decrease the U&U below a previously approved percentage assuming there have been no changes to the system. Therefore, staff recommends a distribution system U&U of 79.09 percent, consistent with the Commission's previous decision.

Conclusion

Staff recommends Placid Lakes' WTP and storage be considered 100 percent U&U, and the water distribution system be considered 79.09 percent U&U. There appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power.

⁴Order No PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 20000295-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

⁵Order Nos. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 20080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 3: Should adjustments be made to Placid Lakes' Pro Forma Plant additions?

Recommendation: Yes. The appropriate pro forma net plant additions are \$58,716. This results in a decrease of \$14,180 from the utility's amended request. Corresponding adjustments should also be made to increase Accumulated Depreciation by \$33,122 and decrease depreciation expense by \$738. Additionally, pro forma property taxes should be increased by \$233. (Knoblauch, Smith II)

Staff Analysis: In its MFRs, Placid Lakes requested cost recovery of four pro forma projects; however, one of the projects was withdrawn per the utility's request. The utility's original request for all four projects was \$209,656, which was reduced to \$159,865 once the fourth project was withdrawn from consideration.

Placid Lakes provided the cost for a meter replacement program totaling \$38,681, which is a continuation of a previously-approved meter replacement program.⁶ The utility is replacing old meters with radio read devices that provide back-flow prevention, as required by the DEP. The utility estimated it will replace six meters per month for a total of 144 meters over two years. This is consistent with the number of meters approved in the utility's last rate case, and appears to also be consistent with the annual number of meters Placid Lakes has replaced over the last six years. The utility provided invoices totaling \$36,372 for the meters, as well as meter boxes and parts, which will not be required for every meter replacement. Additionally, \$2,310 was included as the cost of labor for two employees to complete the 144 meter replacements. The utility requested 75 percent of the replacement cost be utilized for retirement purposes totaling \$27,279. However, the utility's requested retirement amount did not include the labor associated with the project; therefore, staff believes the correct retirement should be \$29,011.

As discussed in Issue 1, Placid Lakes entered into a consent order with the DEP in response to disinfection byproduct exceedances. The utility indicated it would implement a new hydrogen peroxide water treatment system, which was accepted by the DEP on April 19, 2019. The new system was placed into service on May 1, 2019; and based on the most recent results, the utility is in compliance with DEP disinfection byproduct standards. No bids were obtained for this project as Placid Lakes stated that a "plan to correct water quality issues was designed by Florida Rural Water Association."⁷ The parts needed for the project were purchased by the utility, and the labor was largely performed by its employees. The invoices for the hydrogen peroxide system were provided to staff at a total cost of \$25,000.

The utility also included costs for a WTP control system in its MFRs totaling \$60,512. The utility explained that it had experienced problems with the previous control system over the past seven years, and Placid Lakes' prior contractor was unable to resolve the issue. Following a major failure of the control system in November 2018, the utility contacted a new contractor who was able to provide a quote for an interim control system. The interim control system would provide basic functionality; however, it would not have all of the capabilities of the old system. In response to a data request, the utility stated that due to the emergency nature of the control system failure, only one bid was obtained for the project. Placid Lakes determined that the

⁶Order No. PSC-13-0646-PAA-WU.

⁷Response to Staff's First Data Request, Document No. 05322-2019.

interim system was operating properly, and decided to update its original request to include the cost for a complete inner panel at an additional cost of \$35,672, bringing the project total to \$96,184. The utility also requested 75 percent of the replacement cost be utilized for the retirement of the old control system at an amount of \$72,138.

Staff believes that the proper documentation was provided to support the costs of the meter replacements, hydrogen peroxide water treatment system, and the WTP control system projects. The projects appear to be reasonable as the meter replacement program is largely a continuation of its previously approved program, and the hydrogen peroxide system was required to address the disinfection byproduct exceedances and the DEP consent order. Additionally, the new WTP control system was needed as the previous control system was failing. Therefore, staff recommends approval of the three pro forma projects totaling \$159,865, as shown in Table 3-1.

**Table 3-1
 Pro Forma**

Project	Addition	Retirement	Net Plant	Net A/D Adj.	Net Dep Exp	Prop Tax
Meter Replacement Program	\$38,681	(\$29,011)	\$9,670	\$26,431	\$645	\$50
Hydrogen Peroxide System	25,000	0	25,000	(1,138)	1,138	89
Control System	<u>96,184</u>	<u>(72,138)</u>	<u>24,046</u>	<u>67,329</u>	<u>1,202</u>	<u>94</u>
Staff Recommended Totals	\$159,865	(\$101,149)	\$58,716	\$92,622	\$2,985	\$233
MFR Amounts	<u>209,656</u>	<u>(136,760)</u>	<u>72,896</u>	<u>125,744</u>	<u>3,723</u>	<u>0</u>
Adjustments	(\$49,791)	\$35,612	(\$14,180)	(\$33,122)	(\$738)	\$233

Source: Utility's MFRs and staff's calculations

Based on the above, the appropriate pro forma net plant additions are \$58,716. This results in a decrease of \$14,180 from the utility's amended request. Corresponding adjustments should also be made to increase Accumulated Depreciation by \$33,122 and decrease depreciation expense by \$738. Additionally, pro forma property taxes should be increased by \$233.

Issue 4: What is the appropriate Working Capital allowance?

Recommendation: The appropriate Working Capital allowance is \$69,556. This results in a reduction of \$139 to the utility's requested Working Capital allowance. (Smith II)

Staff Analysis: Rule 25-30.433(3), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the Working Capital allowance. The utility has properly calculated its allowance for Working Capital using the one-eighth of O&M expenses method. However, as detailed in Issue 9, staff has recommended adjustments to Placid Lakes' O&M expense. As a result, staff recommends that Working Capital of \$69,556 be approved. This reflects a decrease of \$139 to the utility's requested Working Capital allowance of \$69,695.

Issue 5: What is the appropriate rate base for the test year ended December 31, 2018?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2018, is \$585,815. This results in a reduction of \$194,441 to the utility's requested rate base. (Smith II)

Staff Analysis: In its MFR's, the Utility requested a rate base of \$780,256. Staff's adjustments recommended in Issue 3 and Issue 4 resulted in decreases to net Pro Forma Plant of \$14,180 and Working Capital of \$139, respectively. Additionally, the Utility did not make a U&U adjustment in its MFRs. Therefore, as discussed in Issue 2, staff recommends reducing Utility Plant in Service by \$275,431 and Accumulated Depreciation by \$95,308 to reflect the appropriate U&U percentage. This results in a total decrease in rate base of \$194,441 ($\$14,180 + \$275,431 - \$95,308 + 139$). Based on staff's recommended adjustments, the appropriate rate base is \$585,815. The schedule for rate base is attached as Schedule No. 1-A and the adjustments are shown on Schedule No. 1-B.

Issue 6: What is the appropriate return on equity (ROE)?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 8.76 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Smith II)

Staff Analysis: The utility requested an ROE of 9.07 percent. The utility utilized the 2018 leverage formula in its filing. However, staff applied the 2019 leverage formula to the utility's capital structure in the instant case resulting in an ROE of 8.76.⁸ The ROE is calculated using an equity ratio of 66.50 percent, based on investor sources. This application of the leverage formula is consistent with past decisions when the leverage formula has been updated during a rate case.⁹ Staff recommends the appropriate ROE is 8.76 percent with an allowed range of 7.76 percent to 9.76 percent.

⁸Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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.*

⁹Order No. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 7: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2018?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2018, is 6.33 percent. (Smith II)

Staff Analysis: In its filing, the utility requested weighted average cost of capital (WACC) of 6.67 percent. However, as discussed in Issue 6, staff used the 2019 leverage formula, resulting in a lower ROE, and thus a lower WACC.

Placid Lake's capital structure consists of \$432,580 in common equity, \$217,868 of long-term debt at a cost rate of 3.45 percent, \$37,450 in customer deposits at a cost rate of 2.00 percent, and \$28,711 in deferred income taxes. A staff audit determined that no test year adjustments were necessary. The utility's capital structure has been reconciled with staff's recommended rate base which reduced the common equity balance to \$345,595, and reduced the long-term debt balance to \$174,058. The appropriate ROE is 8.76 percent based upon the Commission-approved leverage formula currently in effect.¹⁰ Staff recommends the appropriate WACC is 6.33 percent with an allowed range of 5.74 percent to 6.92 percent. The appropriate WACC, including the proper components, amounts, and cost rates is shown on Schedule No. 2.

¹⁰Order No. PSC-2019-0267-PAA-WS.

Issue 8: What are the appropriate test year revenues?

Recommendation: The appropriate test year revenues for Placid Lakes Utilities, Inc. are \$701,884. (Ramos)

Staff Analysis: Placid Lakes recorded total test year revenues of \$668,899. The utility's test year revenues included \$661,082 of service revenues and \$7,817 of miscellaneous service revenues. In order to calculate the appropriate service revenues, staff utilized the utility's rates in effect during the test year as well as the bills and gallons provided by the utility within its MFRs. As a result, the appropriate service revenues are \$677,567, which results in an increase of \$16,485 ($\$677,567 - \$668,899$) to the utility's service revenues.

For miscellaneous revenues, the utility did not reflect miscellaneous revenues associated with late payment charges in its MFRs. Staff requested the utility provide a schedule reflecting miscellaneous revenues associated with the late payment charges. The utility indicated that it was unable to provide a schedule detailing the late payment revenues by month when asked by staff due to the way the occurrences were inputted into the utility's billing system. However, the utility has corrected this feature within its billing system on a going-forward basis. Therefore, staff believes it is appropriate to estimate the late payment charge revenues the utility collected during the test year in order to accurately account for the utility's total test year miscellaneous revenues. The utility indicated that it administers approximately 275 late payment charges per month. Based on the utility's five dollar late payment charge and 275 occurrences each month during the test year, this results in additional miscellaneous revenues of \$16,500. As a result, the appropriate miscellaneous revenues are \$24,317 ($\$16,500 + \$7,817$). Based on the above, staff recommends that the appropriate test year revenues for Placid Lakes are \$701,884 ($\$677,567 + \$24,317$).

Issue 9: Should adjustments be made to the utility's O&M expenses?

Recommendation: Yes. O&M expense should be increased by \$2,904 to reflect an increase to chemical expense. (Knoblauch, Smith II)

Staff Analysis: Staff reviewed the utility's requested O&M expenses. In particular, staff compared the requested expenses in the instant case to the Commission-approved amounts in the utility's last rate case. The requested expenses in the instant case represent a slight increase. However, when applying the Commission-approved index factors to the previously approved expenses, the request in the instant case represents an overall decrease in O&M expenses. Therefore, staff believes these expenses are reasonable.

Placid Lakes recorded chemical expense of \$13,427 in its MFRs for the test year. The utility made a normalization adjustment to this amount of \$3,317, resulting in a chemical expense of \$16,744. The utility made a normalization adjustment to account for purchase timing differences. Staff reviewed purchases made over a period of three years and believes that a normalization adjustment is appropriate in this case. However, based on calculations using the values provided by Placid Lakes, staff recommends a normalization adjustment of \$3,110 to the test year amount. This results in a reduction of \$207 to the utility's requested amount of chemical expense.

In addition to the normalization adjustment discussed above, staff recommends adjustments to reflect the addition of a new water treatment system which was placed in-service after the test year. Based on three months of operation, the utility indicated that chemical costs will increase by a total amount of \$3,112. This increase includes costs for hydrogen peroxide which was not needed to operate the previous water treatment system.

Based on the discussion above, staff recommends an adjustment \$2,905 ($-\$207 + \$3,112$) to the Utility's request of \$16,744. The resulting chemical expense is \$19,648 ($\$16,744 + \$2,905$).

Issue 10: What is the appropriate amount of rate case expense for the current case?

Recommendation: The appropriate amount of rate case expense is \$30,664. This expense should be recovered over four years for an annual expense of \$7,666. Therefore, annual rate case expense should be reduced by \$4,020. (Smith II)

Staff Analysis: In its filing, Placid Lakes requested \$46,744 for current rate case expense with a four-year amortization amount of \$11,686.

In Staff's Third Data Request, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case.¹¹ The utility submitted a revised estimated rate case expense, as of October 11, 2019, through completion of the PAA process of \$31,008.¹² Table 10-1 below illustrates the utility's requested rate case expense along with staff's recommended adjustments.

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

The first adjustment to rate case expense is to remove ineligible and duplicative legal expenses. In the utility's update of actual legal fees and costs, fees associated with work on the utility's MFR deficiencies (\$494) were noted, but not removed. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.¹³

The second adjustment relates to pay for a retired employee who assisted the utility in preparing for the rate case. The utility submitted 5 months of timesheets for the retired employee. Those timesheets reflected a total of 30 hours. However, in its calculations for rate case expense, the utility only included 26 hours. Therefore, staff recommends increasing rate case expense by \$150 (\$37.43 x 4).

Placid Lakes initially included expenses of \$2,250 for customer and legal notices. Placid Lakes is responsible for sending three notices: the initial notice, the customer meeting notice, and the notice of the final rate increase. In its update of rate case expense, the utility documented a cost of \$1,122 for each notice. This results in a total of \$3,366 for notices.

Based upon the adjustments above, staff recommends that Placid Lakes' revised rate case expense of \$31,008 be decreased by \$344 (\$494 - \$150) for a total of \$30,664. A breakdown of rate case expense is as follows:

¹¹Document No. 09121-2019

¹²Document No. 09325-2019

¹³Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

**Table 10-1
 Rate Case Expense**

	MFR B-10 Estimated	Utility Revised Actual and Estimated	Staff Adjs	Total
Attorney's Fees (Dean Mead)	\$38,000	\$21,394	(\$494)	\$20,900
Retired Employee	2,994	973	150	1,123
Filing Fee	3,500	3,500	0	3,500
Customer Notices, Postage	2,250	3,367	0	3,367
Travel	0	1,774	0	1,774
Total	<u>\$46,744</u>	<u>\$31,008</u>	<u>(\$344)</u>	<u>\$30,664</u>
Annual Amortization	<u>\$11,686</u>			<u>\$7,666</u>

Source: Staff Calculations

The recommended total rate case expense above should be amortized over four years, pursuant to Section 367.081(8), F.S. Based on the above, staff recommends that annual rate case expense be reduced by \$4,020 (\$11,686 - \$7,666).

Issue 11: What is the appropriate revenue requirement for the test year ended December 31, 2018?

Recommendation: Staff recommends the following revenue requirement be approved. (Smith II)

Test Year		Revenue	
<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
\$701,884	\$60,335	\$762,219	8.60%

Staff Analysis: In its filing, Placid Lakes requested a revenue requirement of \$766,015, which represents a revenue increase of \$97,116, or 14.52 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends a revenue requirement of \$762,219. This represents an increase of \$60,335, or 8.60 percent. Staff's recommended revenue requirement is shown in Table 11-1.

**Table 11-1
 Revenue Requirement**

Adjusted Rate Base	\$585,815
Rate of Return (%)	x 6.33%
Return on Rate Base	\$37,082
Adjusted O&M Expense	556,447
Depreciation Expense (Net)	63,849
Taxes Other Than Income	73,915
Income Taxes	31,028
Revenue Requirement	\$762,219
Less Adjusted Test Year Revenues	701,884
Annual Increase	<u>\$60,335</u>
Percent Increase	<u>8.60%</u>

Issue 12: What is the appropriate rate structure and rates for the utility's water system?

Recommendation: The recommended rate structures and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Ramos)

Staff Analysis: Placid Lakes is located in Highlands County within the SWFWMD. The utility's water system provides service to 1,973 residential and 34 general service customers. Approximately 8 percent of the residential customer bills during the test year had zero gallons, which indicates a non-seasonal customer base. The average residential water demand during the test year was 3,480 gallons per month, which is a 1.8 percent decrease since the utility's last rate case.

Currently, the utility's water system rate structure consists of a base facility charge (BFC) and three tier inclining block rate structure for residential customers. The rate blocks are: (1) 0-10,000 gallons; (2) 10,001-20,000 gallons; and (3) usage in excess of 20,000 gallons. General service customers are billed a BFC and a uniform gallonage charge.

Staff performed an analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) produce 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 Commission practice.

Staff believes an across-the-board increase to the utility's existing rates is appropriate because of the low revenue requirement percentage increase. In addition, the existing rate structure appears reasonable and no significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues (\$701,884 - \$24,317), resulting in an 8.90 ($\$60,335 / \$677,567$) percent increase to the service rates.

Based on the above, the recommended rate structures and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 13: Should the utility's request for a new class of service for private fire protection be approved?

Recommendation: Yes, the utility's request to establish a new class of service for private fire protection should be approved. Staff's recommended monthly private fire protection rates are shown on Schedule No. 4. The utility should file a proposed tariff sheet and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Ramos)

Staff Analysis: Shortly after the utility filed its application for a water rate increase, the utility requested to establish a new class of service for private fire protection rates as a part of this proceeding by letter dated July 31, 2019. The utility requested a new class of service for private fire protection due to a request from a Dollar General store to provide a 6" fire flow line. The utility is requesting the private fire protection rate be consistent with Rule 25-30.465, F.A.C., which states that the rate shall be one-twelfth the current base facility charge of the utility's meter sizes. Staff believes the utility's request is reasonable and should be approved. While the utility only requested the private fire protection rate for a 6" meter, staff recommends setting private fire protection rates for the rest of the utility's corresponding meter sizes pursuant to Rule 25-30.465, F.A.C.; in the event another customer requests private fire protection in the future, the utility would not have to file an additional application with the Commission.

Based on the above, the utility's request to establish a new class of service for private fire protection should be approved. Staff's recommended monthly private fire protection rates are shown on Schedule No. 4. The utility should file a proposed tariff sheet and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 14: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Placid Lakes should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Ramos, Smith II)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in Working Capital, and the gross-up for regulatory assessment fees. The total reduction is \$8,091. Using Placid Lakes' current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 15: Should the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Placid Lakes should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Placid Lakes should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Smith II)

Staff Analysis: Placid Lakes should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Placid Lakes should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 16: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Simmons)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

Placid Lakes Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/18			Schedule No. 1-A Docket No. 20190031-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,048,184	\$49,887	\$3,098,071	(\$14,180)	\$3,083,892
2 Land and Land Rights	4,355	0	4,355	0	4,355
3 Non-used and Useful Components	0	0	0	(275,431)	(275,431)
4 CWIP	4,325	(4,325)	0	0	0
5 Accumulated Depreciation	(1,848,667)	149,736	(1,698,931)	95,308	(1,603,623)
6 CIAC	(1,897,731)	9,458	(1,888,273)	0	(1,888,273)
7 Amortization of CIAC	1,243,797	(26,324)	1,217,473	0	1,217,473
8 Advances for Construction	(18,783)	(3,351)	(22,134)	0	(22,134)
9 Working Capital Allowance	<u>0</u>	<u>69,695</u>	<u>69,695</u>	<u>(139)</u>	69,556
10 Rate Base	<u>\$535,480</u>	<u>\$244,776</u>	<u>\$780,256</u>	<u>(194,441)</u>	<u>\$585,815</u>

Placid Lakes Utilities, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 20190031-WU
Test Year Ended 12/31/18		
Explanation		Water
<u>Plant In Service</u>		
Pro Forma Plant		<u>(\$14,180)</u>
<u>Non-used and Useful</u>		
To reflect non-used & useful adjustment		<u>(\$275,431)</u>
<u>Accumulated Depreciation</u>		
1 Pro Forma Accumulated Depreciation		(\$33,122)
2 To reflect non-used & useful adjustment		<u>128,430</u>
Total		<u>\$95,308</u>
<u>Working Capital</u>		
To reflect appropriate Working Capital		<u>(\$139)</u>

Placid Lakes Utilities, Inc. Capital Structure-13-Month Average Test Year Ended 12/31/18							Schedule No. 2 Docket No. 20190031-WU	
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$466,426	(\$248,558)	\$217,868	\$21,319	\$239,187	30.65%	3.45%	1.06%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	261,465	171,115	432,580	(130,511)	474,909	60.87%	9.07%	5.52%
5 Customer Deposits	40,820	(3,370)	37,450	0	37,450	4.80%	2.00%	0.10%
6 Deferred Income Taxes	<u>31,656</u>	<u>(2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>3.68%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$196,243)</u>	<u>\$780,257</u>	<u>100.00%</u>		<u>6.67%</u>
Per Staff								
11 Long-term Debt	\$466,426	(\$248,558)	\$217,868	(\$43,810)	\$174,058	29.71%	3.45%	1.03%
12 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
13 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	261,465	171,115	432,580	(86,985)	345,595	58.99%	8.76%	5.17%
15 Customer Deposits	40,820	(3,370)	37,450	0	37,450	6.39%	2.00%	0.13%
16 Deferred Income Taxes	<u>31,656</u>	<u>(2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>4.90%</u>	0.00%	<u>0.00%</u>
17 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$130,794)</u>	<u>\$585,815</u>	<u>100.00%</u>		<u>6.33%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>7.76%</u>	<u>9.76%</u>	
OVERALL RATE OF RETURN						<u>5.74%</u>	<u>6.92%</u>	

Placid Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/18						Schedule No. 3-A Docket No. 20190031-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues	<u>\$668,899</u>	<u>\$97,116</u>	<u>\$766,015</u>	<u>(\$64,131)</u>	<u>\$701,884</u>	<u>\$60,335</u> 8.60%	<u>\$762,219</u>
Operating Expenses							
2 Operation & Maintenance	\$540,289	\$17,274	\$557,563	(\$1,116)	\$556,447		\$556,447
3 Depreciation	54,649	3,723	58,372	5,477	63,849		63,849
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	80,091	(3,939)	76,152	(5,080)	71,072	2,843	73,915
6 Income Taxes	<u>5,890</u>	<u>11,778</u>	<u>17,668</u>		<u>16,457</u>	<u>14,571</u>	<u>31,028</u>
7 Total Operating Expense	<u>680,919</u>		<u>709,755</u>		<u>707,825</u>	<u>17,414</u>	<u>725,239</u>
8 Operating Income	<u>(\$12,020)</u>		<u>\$56,260</u>		<u>(\$5,941)</u>	<u>\$42,921</u>	<u>\$36,979</u>
9 Rate Base	<u>\$535,480</u>		<u>\$780,256</u>		<u>\$585,815</u>		<u>\$585,815</u>
10 Rate of Return	<u>-2.24%</u>		<u>7.21%</u>		<u>-1.01%</u>		<u>6.33%</u>

Placid Lakes Utilities, Inc.		Schedule No. 3-B
Adjustment to Operating Income		Docket No. 20190031-WU
Test Year Ended 12/31/18		
Explanation		Water
<u>Operating Revenues</u>		
1	To remove requested revenue increase	(\$97,116)
2	Revenues per ECO	<u>32,985</u>
	Total	<u>(\$64,131)</u>
<u>Operation and Maintenance Expense</u>		
1	To reflect appropriate chemical expense	\$2,904
2	Rate Case Expense Amortization	<u>(4,020)</u>
	Total	<u>(\$1,116)</u>
<u>Depreciation Expense - Net</u>		
1	Pro Forma Depreciation Expense	(\$738)
2	To reflect non-used & useful adjustment	<u>6,215</u>
	Total	<u>\$5,477</u>
<u>Taxes Other Than Income</u>		
1	To remove RAFs on revenue adjustment above	(\$3,022)
2	Used and Useful Property Tax adjustment	<u>(2,291)</u>
3	Pro Forma Property taxes	<u>233</u>
	Total	<u>(\$5,080)</u>

Placid Lakes Utilities, Inc.		Schedule No. 4			
Monthly Water Rates		Docket No. 20190031-WU			
Test Year Ended 12/31/18					
	Rates at Time of Filing	Commission Approved Interim Rates	Utility Requested Final Rates	Staff Recommended Final Rates	4 Year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$11.59	\$12.11	\$11.76	\$12.62	\$0.13
1"	\$28.98	\$30.28	\$29.39	\$31.55	\$0.33
1-1/2"	\$57.95	\$60.55	\$58.78	\$63.10	\$0.65
2"	\$92.72	\$96.88	\$94.04	\$100.96	\$1.04
3"	\$185.44	\$193.76	\$188.08	\$201.92	\$2.08
4"	\$289.75	\$302.75	\$293.88	\$315.50	\$3.25
6"	\$579.50	\$605.50	\$587.75	\$631.00	\$6.50
Charge per 1,000 gallons - Residential					
0-10,000 gallons	\$4.34	\$4.54	\$5.21	\$4.73	\$0.05
10,001 - 20,000 gallons	\$6.52	\$6.81	\$7.81	\$7.10	\$0.07
Over 20,000 gallons	\$8.68	\$9.07	\$10.41	\$9.45	\$0.09
Charge per 1,000 gallons - General Service	\$4.64	\$4.85	\$5.57	\$5.05	\$0.05
<u>Private Fire Protection</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	N/A	N/A	N/A	\$1.05	\$0.01
1"	N/A	N/A	N/A	\$2.63	\$0.03
1-1/2"	N/A	N/A	N/A	\$5.26	\$0.05
2"	N/A	N/A	N/A	\$8.41	\$0.09
3"	N/A	N/A	N/A	\$16.83	\$0.17
4"	N/A	N/A	N/A	\$26.29	\$0.27
6"	N/A	N/A	\$49.00	\$52.58	\$0.54
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
3,000 Gallons	\$24.61	\$25.73	\$27.39	\$26.81	
6,000 Gallons	\$37.63	\$39.35	\$43.02	\$41.00	
8,000 Gallons	\$46.31	\$48.43	\$53.44	\$50.46	