

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Highlands County by Placid Lakes Utilities,
Inc.

DOCKET NO. 20190031-WU
ORDER NO. PSC-2019-0551-PAA-WU
ISSUED: December 30, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING AN INCREASE IN WATER RATES
AND
FINAL ORDER REQUIRING FOUR-YEAR RATE REDUCTION
AND PROOF OF ADJUSTMENTS OF BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the action discussed herein, except with regard to the four-year rate reduction and proof of adjustments of books and records, 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 (F.A.C.).

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 this Commission for an increase in water rates. Accompanying the Utility's application were minimum filing requirement

¹ Order No. PSC-2013-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

schedules (MFRs) required by Rule 25-30.436, 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 and a final revenue increase of \$97,116 (14.5 percent). By Order No. PSC-2019-0286-PCO-WU, we suspended the final water rates proposed by the Utility to allow sufficient time to process this case and approved an across-the-board interim rate increase of 4.52 percent.²

The five-month statutory deadline for this 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 we are required to address the Utility's final requested rates through December 10, 2019.

This Order addresses Placid Lakes' request for final rates. We have jurisdiction pursuant to Sections 367.081, 367.0812, and 367.091, Florida Statutes (F.S.).

Decision

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., this 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, we reviewed the Utility's compliance with 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 DEP on November 19, 2018, for exceedances of the maximum contaminant levels (MCLs) for disinfection byproducts. In response to a Commission staff data request, the Utility indicated that a new hydrogen peroxide treatment system, to address the disinfection byproducts exceedances, was accepted by DEP on April 17, 2019, and was placed into service in early May 2019.

² Order 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.*

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 Commission staff, 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 DEP's drinking water standards.

We requested complaints from 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, 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 DEP for plant improvements to address the formation of disinfection byproducts, as well as taste and odor issues from hydrogen sulfide. Additionally, 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

We reviewed our 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 September 12, 2019, 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 three 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 Commission 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 seven 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 DEP's drinking water standards. Additionally, the Utility appears to be responding adequately to the concerns of its customers. Therefore, we find the overall quality of service provided by Placid Lakes to be satisfactory.

Used & Useful

Placid Lakes' water treatment plant (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, we found Placid Lakes' water treatment plant and storage to be 100 percent U&U. For the distribution system, we determined the U&U to be 79.09 percent using a non-traditional methodology.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines excessive unaccounted for water (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, we consider several factors. These include: (1) the causes of EUW; (2) any corrective action taken; and (3) the economical feasibility of a

³ *Id.* at 1.

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 Commission staff's 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 unaccounted for water. Accordingly, we find that no adjustment is needed to purchased power and chemical expenses due to EUW.

Water Treatment Plant and Storage

As noted above, we 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 our previous decision, we find the Utility's WTP and storage to be 100 percent U&U.

Water Distribution System

In Placid Lakes' 2000 rate case, we found the Utility's distribution system to be 76.37 percent U&U.⁴ In that case, we 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 of 76.37 percent. We noted that without these additional considerations, the U&U would have been 54.99 percent.

Relying on the method of evaluation discussed above, we determined the Utility's distribution system to be 79.09 percent U&U in its 2008 and 2013 rate cases.⁵ In Placid Lakes' 2013 rate case, we 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.

⁴ Order No PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

⁵ Order No. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities Inc. and Id.* at 1.

In the current rate case, the Utility has not presented, nor have we identified, a change in the conditions of the Utility's service territory. Therefore, we shall 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 not this Commission's practice to decrease the U&U below a previously approved percentage assuming there have been no changes to the system. Therefore, consistent with our previous decision, we find the distribution system to be 79.09 percent U&U.

Conclusion

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

Adjustments to Pro Forma Plant

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 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, we find that the correct retirement shall be \$29,011.

As discussed in the Quality of Service Section, Placid Lakes entered into a consent order with DEP in response to disinfection byproduct exceedances. The Utility indicated it would implement a new hydrogen peroxide water treatment system, which was accepted by 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

⁶ *Id.* at 1.

⁷ Response to Commission staff's first data request, Document No. 05322-2019.

purchased by the Utility, and the labor was largely performed by its employees. The invoices for the hydrogen peroxide system showed 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 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.

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, we approve the three pro forma projects totaling \$159,865, as shown in Table 1.

Table 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>
Commission-Approved 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 our 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 shall also be made to increase accumulated depreciation by \$33,122 and decrease depreciation expense by \$738. Additionally, pro forma property taxes shall be increased by \$233.

Working Capital Allowance

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 formula method. However, as detailed in the Operating Expense Section, adjustments have been made to Placid Lakes' O&M expense. As a result, we approve working capital of \$69,556. This reflects a decrease of \$139 to the Utility's requested working capital allowance of \$69,695.

Rate Base

In its MFR's, the Utility requested a rate base of \$780,256. The adjustments in the Adjustments to Pro Forma Plant and Working Capital Allowance sections 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 the Used & Useful Section, the utility plant in service is reduced by \$275,431 and the accumulated depreciation is reduced 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 these 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.

Return on Equity

The Utility requested a return on equity (ROE) of 9.07 percent. The Utility utilized the 2018 leverage formula in its filing. However, we applied the 2019 leverage formula to the Utility's capital structure in the instant case, resulting in a 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 Therefore, the approved ROE shall be 8.76 percent with an allowed range of 7.76 percent to 9.76 percent.

Cost of Capital

In its filing, the Utility requested a weighted average cost of capital (WACC) of 6.67 percent. However, as discussed in the ROE Section, the 2019 leverage formula was used, 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 Commission staff audit determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with our approved rate base which reduced the common equity balance to \$345,595, and reduced the long-term debt balance to \$174,058. With a ROE of 8.76 percent, 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.

⁸ Order 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.*

⁹ Order 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.*

Test Year Revenues

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, we 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.

The Utility did not reflect miscellaneous revenues associated with late payment charges in its MFRs. Commission 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 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, 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, an additional \$16,500 of miscellaneous revenue is generated. As a result, the appropriate miscellaneous revenues are \$24,317 (\$16,500 + \$7,817). Based on the above, we find that the appropriate test year revenues for Placid Lakes are \$701,884 (\$677,567 + \$24,317).

Operating Expense

We reviewed the Utility's requested O&M expenses. In particular, we compared the requested expenses in the instant case to the approved amounts in the Utility's last rate case. The requested expenses in the instant case represent a slight increase. However, when applying the approved index factors to the previously approved expenses, the request in the instant case represents an overall decrease in O&M expenses. Therefore, we find these expenses to be 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. We reviewed purchases made over a period of three years and find that a normalization adjustment is appropriate in this case. However, based on calculations using the values provided by Placid Lakes, we find that a normalization adjustment of \$3,110 to the test year amount is appropriate. This results in a reduction of \$207 to the Utility's requested amount of chemical expense.

In addition to the normalization adjustment discussed above, we find that adjustments to reflect the addition of a new water treatment system which was placed in-service after the test year are appropriate. 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, we find that an adjustment of \$2,905 (\$3,112 - \$207) to the Utility's request of \$16,744 is appropriate. The resulting chemical expense is \$19,648 (\$16,744 + \$2,905).

Rate Case Expense

In its filing, Placid Lakes requested \$46,744 for current rate case expense with a four-year amortization amount of \$11,686. In Commission staff's third data request, an update of the actual rate case expense incurred was requested, along with supporting documentation, as well as the estimated amount to complete the case.¹⁰ The Utility submitted a revised estimated rate case expense, as of October 11, 2019, through completion of the PAA process of \$31,008.¹¹ Table 2 below illustrates the Utility's requested rate case expense along with our adjustments.

Pursuant to Section 367.081(7), F.S., this Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find that 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. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.¹²

The second adjustment relates to pay for a retired employee who assisted the Utility in preparing for the rate case. The Utility submitted five 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, we find increasing rate case expense by \$150 (\$37.43 x 4) is appropriate.

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, we find that Placid Lakes' revised rate case expense of \$31,008 shall be decreased by \$344 (\$494 - \$150) for a total of \$30,664. A breakdown of rate case expense is shown in the following table.

¹⁰ Document No. 09121-2019.

¹¹ Document No. 09325-2019.

¹² Order 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 2
Rate Case Expense

	MFR B-10 Estimated	Utility Revised Actual and Estimated	Commission Adjustments	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	<u>0</u>	<u>1,774</u>	<u>0</u>	<u>1,774</u>
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: Utility's MFRs and our calculations

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

Revenue Requirement

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 our findings concerning the underlying rate base, cost of capital, and operating income issues, we find that the appropriate revenue requirement shall be \$762,219. This represents an increase of \$60,335, or 8.60 percent.

Table 3
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>

Rate Structure and Rates

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 eight 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.

We 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 this Commission's practice.

We find that 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 percent increase (\$60,335 / \$677,567) to the service rates.

The approved rate structures and monthly water rates are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall provide proof of noticing within 10 days of rendering its approved notice.

New Class of Service

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-inch 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.

Based on the above, the Utility's request to establish a new class of service for private fire protection shall be approved. While the Utility only requested the private fire protection rate

for a 6-inch meter, we find it appropriate to set 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 this Commission. The approved monthly private fire protection rates are shown on Schedule No. 4. The Utility shall file a proposed tariff sheet and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall provide proof of noticing within 10 days of rendering its approved notice.

Four-Year Rate Reduction

Section 367.081(8), F.S., requires that 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. This results in a total reduction of \$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 shall 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.

Proof of Adjustments

Placid Lakes shall notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Placid Lakes shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the 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 shall be provided within seven days prior to the deadline. Upon providing good cause, Commission staff shall be given administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

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

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

ORDERED that Placid Lakes Utilities, Inc. is hereby authorized to charge the new rates as approved in the body of this Order. It is further

ORDERED that Placid Lakes Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that Placid Lakes Utilities, Inc.'s request to establish a new class of service for private fire protection is hereby approved. The Utility shall file a proposed tariff sheet and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that in accordance with Section 367.081, F.S., Placid Lakes Utilities, Inc.'s water rates shall be reduced immediately following the expiration of the four-year rate case expense recovery period, as shown on Schedule No. 4. It is further

ORDERED that Placid Lakes Utilities, Inc. shall 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. It is further

ORDERED that Placid Lakes Utilities, Inc. shall 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 shall be provided within seven days prior to the deadline. Upon providing good cause, Commission staff shall be given administrative authority to grant an extension of up to 60 days. 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, Florida Administrative Code, is received by the 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 or Judicial Review" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action issues a protest within 21 days of the issuance of the Order, a Consummating Order will be issued. It is further

ORDERED that in the event this Order becomes final, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and the Utility has provided Commission staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 30th day of December, 2019.

/s/ Adam J. Teitzman

ADAM J. TEITZMAN

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.

KBS

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.

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.

As identified in the body of this Order, our action herein, except for requiring a four-year reduction and proof of adjustments, 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 21, 2020. In the absence

of such a petition, this Order shall become final and effective 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 person adversely affected by the Commission's final action in this matter, regarding the four-year reduction and proof of adjustments, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/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.

Placid Lakes Utilities, Inc.				Schedule No. 1-A		
Schedule of Water Rate Base				Docket No. 20190031-WU		
Test Year Ended 12/31/18						
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission 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	(\$14,180)	
<u>Non-used and Useful</u>		
To reflect non-used & useful adjustment	(\$275,431)	
<u>Accumulated Depreciation</u>		
1 Pro Forma Accumulated Depreciation	(\$33,122)	
2 To reflect non-used & useful adjustment	128,430	
Total	<u>\$95,308</u>	
<u>Working Capital</u>		
To reflect appropriate Working Capital	(\$139)	

Placid Lakes Utilities, Inc.						Schedule No. 2		
Capital Structure-13-Month Average						Docket No. 20190031-WU		
Test Year Ended 12/31/18								
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 Commission								
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	Commission Adjust- ments	Commission 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	(2,291)
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	Commission Approved 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		