

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-**

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**DATE:** August 6, 2009

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Fletcher, Bulecza-Banks, Lingo, Walden)  
Office of the General Counsel (Young)

**RE:** Docket No. 080353-WU – Application for increase in water rates in Highlands  
County by Placid Lakes Utilities, Inc.

**AGENDA:** 08/18/09 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 15 &  
17 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** McMurrian

**CRITICAL DATES:** 5-Month Effective Date Waived Through August 18,  
2009.

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\080353.RCM.DOC

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**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	- 3 -
1	Quality of Service (Walden).....	- 4 -
2	Used and Useful (Walden, Fletcher) .....	- 6 -
3	Pro-forma Plant Adjustments (Fletcher).....	- 9 -
4	Working Capital (Fletcher).....	- 10 -
5	Rate Base (Fletcher) .....	- 11 -
6	Return on Equity (Fletcher).....	- 12 -
7	Weighted Average Cost of Capital (Fletcher) .....	- 13 -
8	Operation and Maintenance Expenses (Fletcher).....	- 14 -
9	Rate Case Expense (Fletcher).....	- 15 -
10	Operating Income or Loss Before Any Increase (Fletcher).....	- 18 -
11	Revenue Requirement (Fletcher).....	- 19 -
12	Rate Structure (Lingo).....	- 20 -
13	Repression (Lingo).....	<b>Error! Bookmark not defined.</b>
14	Appropriate Rates (Lingo, Fletcher).....	<b>Error! Bookmark not defined.</b>
15	Four-Year Rate Reduction (Fletcher).....	<b>Error! Bookmark not defined.</b>
16	Interim Refund (Fletcher).....	<b>Error! Bookmark not defined.</b>
17	Proof of Adjustments (Fletcher) .....	<b>Error! Bookmark not defined.</b>
18	Close Docket (Young, Fletcher).....	<b>Error! Bookmark not defined.</b>

<u>Sch/Att</u>	<u>Description</u>	<u>Page</u>
1-A	Water Rate Base.....	-29-
1-B	Adjustments to Rate Base.....	-30-
2	Capital Structure.....	-31-
3-A	Water Operating Income.....	-32-
3-B	Adjustments to Operating Income.....	-33-
4	Water Rates and Four Year Rate Reduction.....	-34-
A	Determination of Appropriate Rate Structure.....	-35-

### Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,959 customers in Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District (SWFWMD) as a critical use area. The Utility's water rates were last established in its 2001 rate proceeding.<sup>1</sup> Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2008 annual report, the Utility reported operating revenues of \$525,902 and a net operating loss of \$11,456.

On October 14, 2008, Placid Lakes filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the minimum filing requirements (MFRs). The deficiencies were corrected, and December 5, 2008, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the twelve-month period ended December 31, 2008.

Placid Lakes requested interim rates designed to generate annual water revenues of \$643,135, an increase of \$101,903 or 18.83 percent. The Utility requested final rates designed to generate annual water revenues of \$705,582, an increase of \$169,182 or 31.54 percent.

By Order No. PSC-09-0022-PCO-WU, issued January 6, 2009, Placid Lakes was granted interim rates designed to generate annual revenues of \$592,263. This represents a revenue increase of \$51,031 (9.43 percent).

On June 18, 2009, staff filed its PAA recommendation for the June 30, 2009, Agenda Conference. On June 25, 2009, the Utility requested a deferral and waiver of the statutory deadline through August 18, 2009, in order to provide additional information regarding staff's non-used and useful adjustment. On June 26, 2009, the Chairman approved the deferral of Item 12 until the August 18, 2009, Agenda Conference.

As addressed in Issue 2, staff changed its recommended non-used and useful adjustment to account for contributions related to the Utility's distribution system. As discussed in Issue 6, staff also adjusted its recommended return on equity because the Commission's 2009 leverage formula became effective. These changes affect staff's recommended revenue requirement, as well as other fall-out issues and schedules.

~~By letter dated March 11, 2009, the Utility waived the 5-month statutory deadline for this case through June 30, 2009. This recommendation addresses the revenue requirement and rates to be charged on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).~~

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<sup>1</sup> See Order No. PSC-01-0327-PAA, issued February 6, 2001, in Docket No. 000295-WU, In Re: Application for rate increase in Highlands County by Placid Lakes Utilities, Inc.

### **Discussion of Issues**

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

**Recommendation:** Yes. The overall quality of service provided by Placid Lakes Utilities, Inc. is satisfactory. The Utility should be ordered to install an additional water line to loop two existing water lines on Thurman Avenue to improve water quality. This creates an increase to plant of \$3,978. Accordingly, corresponding adjustments should be made to increase depreciation expense and accumulated depreciation both by \$93. (Walden)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the Utility's product, the operating condition of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. We have also considered the Utility's current compliance with the Florida Department of Environmental Protection (DEP).

### **Quality of Utility's Product**

Placid Lakes' water facilities are regulated by the DEP South District office in Tampa. The Utility is current in all of the required chemical analyses. Also, the Utility has met all required standards for the water plant and system. The quality of drinking water delivered to the customers is considered to be satisfactory by the DEP.

### **Operational Conditions of Plants**

A field investigation of the Placid Lakes' service areas was conducted May 1, 2009. Staff found no apparent problems with the operations of the water treatment facilities. The water plant was operating normally and was well-maintained. The conditions of these facilities are currently in compliance with the DEP rules and regulations. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff believes that the quality of service for the condition of the water plant is satisfactory.

### **Customer Satisfaction**

The Utility provided copies of customer complaints received during the test year. The water quality complaints dealt with odor, taste, sand, and one low pressure complaint. A review of these complaints found that Placid Lakes often responded with the flushing of lines to help resolve the water quality problems. Reviewing the comments addressing resolution of complaints shows that the Utility responded promptly to complaints and endeavored to fix the problem and satisfy the customer in each instance.

A customer meeting was held on April 30, 2009, in Lake Placid. One customer spoke about the service provided by the company characterizing it as good, and another spoke about

offensive taste and smell. After the customer meeting, a visit was made to three homes on Thurman Avenue. All three customers spoke of the water periodically having an offensive odor, taste, and leaving a residue, noting that the water quality improves when the Utility flushes the water line on Thurman. The customers also said the Utility personnel are good in responding to the need for line flushing. There is about a 300 foot section on Thurman Avenue where two opposing water lines could be looped, and this improvement might mitigate the taste and odor issue experienced by the three customers. There are no road crossings involved, but the construction would require a county permit and engineering design. The estimated cost is \$3,978, and staff recommends this distribution system improvement be a pro forma plant item to be completed by December 31, 2009. As such, staff recommends that plant should be increased by \$3,978. Accordingly, corresponding adjustments should be made to increase depreciation expense and accumulated depreciation both by \$93. Staff has discussed this line extension with the Utility, and Placid Lakes has agreed to this recommended improvement.

The PSC Complaint Tracking System was reviewed. There has been one customer inquiry since 2006 involving a question about service availability and the connection fees required.

### **Quality of Service Summary**

Placid Lakes' overall quality of service should be considered satisfactory. Staff believes that the quality of the product and the condition of the plants are satisfactory in regard to regulatory compliance standards. The Utility has addressed customer concerns adequately and there are no outstanding problems at this time. Therefore, staff concludes the overall quality of service is satisfactory.

**Issue 2:** What should the used and useful percentages be for the Utility's water facilities?

**Recommendation:** The water treatment plant is 100 percent used and useful, and the distribution system is 79.09 percent used and useful. As such, water rate base should be reduced by \$15,363 ~~\$125,032~~ to reflect the 20.91 percent of the distribution system which is non-used and useful. Accordingly, corresponding adjustments should be made to reduce depreciation expense by \$305 ~~\$5,715~~ and property tax expense by \$700. (Walden, Fletcher)

**Staff Analysis:** The water treatment plant is essentially the same in this case as it was in the last rate case. Equipment changes include the addition of a new generator which was added several years ago, replacing an older model, and a new master flow meter which was installed at the plant after the former meter failed. The water distribution system is also essentially the same, although there have been some line extensions as new homes have been built. The yield from the wells at the plant has increased from the last rate case.

In its application, the Utility asserts that the water treatment plant is 100 percent used and useful, and the water distribution system is 84.64 percent used and useful. The methods and calculations in the current filing are the same as those proposed in the prior rate case, and approved by the Commission in that prior case.<sup>2</sup>

### **Water Treatment Plant**

Rule 25-30.4325, F.A.C., implemented since the Utility's last rate case, provides that "the used and useful calculation for the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 16 hours of pumping." Consideration is given to fire flow, unaccounted for water, growth, and capacity limitations. One of the Utility's wells is on site and the other two are near the water treatment plant. The Utility is permitted for a fourth well, but that well has not been needed and has not been drilled.

Placid Lakes has three wells that are active. The firm reliable well capacity of 1,094,400 gallons per day (gpd) is determined by removing one well from service and then totaling the remaining well capacities. Plant capacity is limited by the Southwest Florida Water Management District (SWFWMD) permit which limits pumping to 401,100 gpd on an annual average basis and peak flows of 469,400 gpd. The amount of water pumped, sold, as well as unaccounted for water, has been reviewed. The amount of unaccounted for water is under 3 percent, which is acceptable.

For growth, the Utility prepared calculations using average customers and equivalent residential connections (ERCs), as well as a linear regression analysis. Linear regression projections for five years' growth of 450 ERCs are slightly higher than the average calculations. In light of the economic downturn in home construction, staff believes that a more accurate projection for future growth should be based on average growth. For this reason, staff believes that an average annual growth of 69 customers is more realistic. Actual growth from 2007 into

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<sup>2</sup> See Docket No. 000295-WU, Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

2008 of 37 customers, plus 345 customers for each of the next five years, results in 382 new customers. Using a peak day demand of 254 gpd/ERC results in a growth allowance of 97,028 gpd. Peak day demand was calculated using the average number of customers and the single maximum day from historical test year 2007 (1942 customers/494,103 gpd).

Staff recommends that the water treatment plant be considered 100 percent used and useful. This recommendation is based on the peak day demand of 494,103 gpd which occurred on July 13, 2007, plus the required fire flow of 120,000 gpd, and a growth allowance of 97,028 gpd, divided by the firm reliable plant capacity of 469,400 gpd, based upon the limitation of the water management district permit.

### **Storage**

Pursuant to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. Therefore, the Utility's two storage tanks should be considered 100 percent used and useful because the 270,000 gallons of usable storage (90 percent of 300,000 gallons) is less than the peak day demand of 494,103 gallons.

### **Water Distribution System**

In the last rate case, the distribution system was found to be 76.37 percent used and useful. The Utility proposed an 84.64 percent used and useful allowance for the distribution system based on the methodology used in the last rate case. A detailed used and useful analysis for the distribution system is contained in the filing. The analysis is consistent with the methodology from the last rate case approved by the Commission where mains larger than 6 inches in diameter were considered 100 percent used and useful, and other lines were evaluated comparing lots with homes connected to the system to lots with water available. This method is not materially different from an evaluation based on ERCs because the vast majority of the Utility's customers (97 percent) are residential customers with 5/8 X 3/4 inch meters, and the general service customer demand is similar to the residential customer demand. Homes that have private wells for domestic supply are not included in the calculation. A traditional analysis of the distribution system results in a used and useful 46 percent based on 1,942 connected lots, a growth allowance of 414 ERCs, and 5,103 total lots.

The distribution system has been designed to serve the existing customers and new lines are installed as new customers need service. Staff agrees with the Utility's weighted average used and useful calculation of 67.37 percent for test year customers; however, it appears that the Utility's proposed growth allowance of 450 ERCs is excessive given the average historical growth the Utility has experienced. The addition of 382 new customers, which is a growth allowance of 17.43 percent, is consistent with the growth allowance recognized for the water treatment system, and brings the used and useful allowance for the distribution system to 79.09 percent. Staff recommends the water distribution system be considered 79.09 percent used and useful.

As a result of these used and useful percentages and based on the supplemental information regarding contributions for the Utility's distribution system,<sup>3</sup> water rate base should be reduced by ~~\$15,363~~ ~~\$125,032~~ to reflect that 20.91 percent of the distribution system is non-used and useful. Accordingly, corresponding adjustments should be made to reduce depreciation expense by ~~\$305~~ ~~\$5,715~~ and property tax expense by \$700.

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<sup>3</sup> It is Commission practice to treat all contributed facilities as 100 percent used and useful. See Order Nos. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.; PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.; PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.



**Issue 3:** Should adjustments be made to Placid Lakes' requested pro-forma plant additions?

**Recommendation:** Yes. Plant-in-service should be reduced by \$65,450 to reflect pro-forma plant adjustments. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$65,450 and 3,593, respectively. (Fletcher)

**Staff Analysis:** Placid Lakes stated in its application that a total of \$62,700 was to be spent on remote meter reader installations. In staff's first data request, documentation supporting this plant improvement project was requested. The Utility only provided out-dated quotes of the remote meter reader installations but did not submit a completion date. Staff requested again for support documentation (i.e. invoices or signed contracts) in its second data request. Placid Lakes failed to provide such support documentation. Due to the lack of support on the remote meter reader installation, staff recommends that plant-in-service should be reduced by \$62,700.

In its filing, the Utility also reflected a pro forma plant addition of \$17,000 for a new truck. Placid Lakes' adjusted plant-in-service included a reduction of \$10,000 for a truck retirement. Staff requested documentation showing original cost of the old truck, in order to determine the appropriate amount of retirement. The Utility could not provide such documentation and was only able to provide the replacement value of the truck in its MFRs. When the original cost and the original in-service date are not known, it is Commission practice to determine the retirement cost by using 75 percent of the replacement value.<sup>4</sup> As such, staff calculated a retirement amount of \$12,750 (\$17,000\*75 percent). Thus, staff recommends that plant-in-service should be further reduced by \$2,750 (\$12,750 less \$10,000).

In summary, plant-in-service should be reduced by \$65,450 (\$62,700 plus \$2,750) to reflect pro-forma plant adjustments. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$65,450 and 3,593, respectively.

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<sup>3</sup> See Docket No. 030423-WU, Order No. PSC-04-0356-PAA-WU, issued April 5, 2004, In Re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County; See Docket No. 0404-WS, Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.

**Issue 4:** What is the appropriate working capital?

**Recommendation:** The appropriate amount of working capital is \$59,853. (Fletcher)

**Staff Analysis:** The Utility calculated its working capital allowance pursuant to Rule 25-30.433(2), F.A.C., which requires Class B utilities to use the formula method, or one-eighth of operation and maintenance (O&M) expenses. Staff recommends several adjustments to O&M expenses as discussed in later issues. Based on the adjusted balance of O&M expenses, staff's recommended working capital provision for Placid Lakes is \$59,853. This represents an increase of \$2,680 to the Utility's requested working capital allowance of \$57,173.

Date: August 6, 2009

**Issue 5:** What is the appropriate rate base?

**Recommendation:** The appropriate rate base for the test year ended December 31, 2008 is \$535,134 ~~\$425,464~~ for the water system. (Fletcher)

**Staff Analysis:** Based on staff's recommended adjustments and use of a simple average test year, rate base for Placid Lakes is \$535,134 ~~\$425,464~~. The rate base schedule is attached as Schedule 1-A. The schedule of adjustments to rate base is attached as Schedule 1-B.

**Issue 6:** What is the appropriate return on equity?

**Recommendation:** The appropriate return on equity (ROE) is 9.67 ~~9.48~~ percent, based on staff's recommended ~~2009~~ ~~2008~~ leverage formula and an equity ratio of 100 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Fletcher)

**Staff Analysis:** Based on the Commission's ~~2009~~ ~~2008~~ leverage formula<sup>5</sup> and an equity ratio of 100 percent, staff calculated an ROE of 9.67 ~~9.48~~ percent. It has been Commission practice to use the most recent leverage formula in effect at the time of the Commission's vote to approve final rates. ~~Staff notes that in Docket No. 080249-WS, at the June 2, 2009, Agenda Conference, the Commission utilized the 2009 leverage formula.<sup>6</sup> The 2009 leverage formula was used due to a substantial basis point difference between the 2008 and 2009 leverage formula calculations for Labrador Utilities, Inc. This was a departure from normal Commission practice of using the most current leverage formula in effect at the time of the Commission vote to determine the appropriate return on equity. The difference between the 2008 and 2009 leverage formula calculation of return on equity for Placid Lakes is only 19 basis points. Because of this minimal difference, staff believes the Commission should not depart from the long-standing practice of using the most current leverage formula. Staff also recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. The return on equity is shown on Schedule No. 2.~~

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<sup>5</sup> See Order No. PSC-09-0430-P AA-WS, issued June 19, 2009, Docket No. 090006-WS, Order No. PSC-08-0846-FOF WS, issued December 31, 2008, in Docket No. 080006 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.

<sup>6</sup> In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

**Issue 7:** What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

**Recommendation:** The recommended weighted average cost of capital is 9.58 ~~9.42~~ percent for the test year ended December 31, 2008. (Fletcher)

**Staff Analysis:** In its MFRs, Placid Lakes requested a 9.46 percent overall rate of return in this proceeding. The Utility reflected only the reconciled rate base capital structure without taking the actual capital structure items into account. However, Placid Lakes' balance sheet on MFR Schedule A-19 reflected the unreconciled balance of common equity. Pursuant to Rule 25-30.433(4), F.A.C., the averaging method used by the Commission to calculate cost of capital is a simple average for Class B utilities. Per the rule, staff calculated the cost of capital using a simple average of the test year and the prior year. This resulted in an adjustment to increase common equity by \$82,088. Based on the above and the recommended ROE in Issue 6, staff's recommended capital structure yields and overall cost of capital of 9.58 ~~9.42~~ percent. The overall rate of return is shown on Schedule No. 2.

**Issue 8:** Should adjustments be made to O&M expenses?

**Recommendation:** Yes, adjustments should be made to reduce O&M by \$8,204. (Fletcher)

**Staff Analysis:** Based on its review, staff believes several adjustments should be made to O&M expenses which relate to contractual services-legal and contractual services-other.

Placid Lakes adjusted contractual services-legal by \$2,108 to reflect a five-year average level. The Utility reflected no contractual services-legal in the 2007 historical test year. As such, it normalized the legal expenses to reflect a five-year average between 2002 and 2006. Staff believes that the five-year period suggested by the Utility is too volatile. During that period, legal expenses ranged from zero in cost for two different years and up to \$6,427 in one year. In addition, no legal expenses were incurred by Placid Lakes in 2008 based on its current annual report filed with the Commission. Staff felt a more reasonable method to determine legal fees was to take the last approved amount for contractual services-legal and index it up for customer growth and inflation. The last approved amount of contractual services-legal was \$238.<sup>7</sup> Based on Staff's conclusion, staff calculated that legal fees should be reduced by \$1,724.

In the Utility's filing, contractual services-other was recorded as \$70,885. Placid Lakes made a reduction of \$10,800 to the test year amount to amortize tank maintenance over two years. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. It is also Commission practice to amortize tank painting over five years.<sup>8</sup> Staff requested documents to support Placid Lakes' request to use only a two-year amortization period. The Utility failed to justify why the expense should be amortized over two years, and simply stated that two years was its normal maintenance cycle for the painting of tanks. The Utility's policy is not consistent with Commission policy. Therefore, contractual services should be reduced by \$17,280 (4/5 of the total, \$21,600) in order to reflect the five-year amortization period. As such, staff recommends that the Utility's adjustment to contractual services-other should be reduced by \$6,480 (\$17,280-\$10,800).

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<sup>7</sup>See 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.

<sup>8</sup>See Order Nos. PSC-07-0130-SC-SU, p. 19, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.; PSC-98-1579-FOF-WS, p. 22, issued November 25, 1998, in Docket No. 980441-WS, In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.; and PSC-96-0934-FOF-WS, p. 9, issued July 18, 1996, in Docket No. 951296-WS, In re: Application for a staff-assisted rate case in Volusia County by Plantation Bay Utility Co.

**Issue 9:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense for this docket is \$94,164. This expense should be recovered over four years for an annual expense of \$23,791. Thus, rate case expense should be reduced by \$9,872. (Fletcher)

**Staff Analysis:** Placid Lakes initially submitted in its MFRs \$134,650 in rate case expense, with an annual amortization expense of \$33,663. The breakdown of fees is shown below as reflected in the Utility's MFRs.

	<u>MFR Estimated</u>	<u>Utility Revised Actual</u>
Accounting/Engineering- Guastella & Associates	\$93,300	\$86,568
Legal- James Ade	26,000	27,670
In house- Pam Brewer	5,000	6,650
Accounting- Larry King	5,000	5,000
Other- administrative, mailings, filing fee	<u>5,350</u>	<u>5,350</u>
Total	<u>\$134,650</u>	<u>\$131,238</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses 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 several adjustments are necessary to the revised rate case expense estimate.

The first adjustment is in regards to the rate expense for Larry King, CPA. In its filing, the Utility requested \$5,000 for Mr. King. In the first data request, staff requested documentation to support the expense. The response from the Utility showed Mr. King worked a total of 24 hours, through January 30, 2009, in order to "provide historical and base year financial information (P&L statements, balance sheet, asset records and depreciation schedules)." The response given to staff lacked the actual invoices showing these duties performed, the time to perform such duties and the specific fees charged to the Utility. Staff asked for this information again, in the second data request. Once again, Placid Lakes failed to provide the support documentation. Due to the lack of supporting invoices for work provided by Larry King, CPA, staff recommends that this portion of rate case expense be removed, representing a reduction of \$5,000.

The second adjustment refers to the in-house rate case expense work completed by Pam Brewer. As the table above shows, the Utility requested \$5,000 in rate case expense. The specific services rendered were administrative in nature, specifically, compiling data, inputting operational data, mailings, preparing notices, and copying. In the first and second data request, staff asked for a more thorough description and breakdown of Ms. Brewer's incremental

overtime duties. Subsequent to the second data request, the Utility provided staff with an updated account of hours spent on the case as well as a breakdown of duties performed. This breakdown indicated total hours of 399. Because the Utility failed to provide staff with an hourly rate in response to staff's second data request, staff calculated an hourly rate of \$16.67 (\$5,000/300 hours) based on the hours and total amount provided in response to staff's first data request. Ms. Brewer spent 60 hours working on the change in test year. Since the test year change was an update requested by the Utility, staff believes it should be removed from total rate case expense. Staff believes that 60 hours should be reduced from the total requested hours for Ms. Brewer. This represents a reduction of \$1,000 (16.67 x 60). As such, staff recommends rate case expense for Pam Brewer should be adjusted to \$5,650 (\$16.67 x 339 hours). Staff believes this to be a reasonable expense for in-house costs associated with a rate case.

The third adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of job detail reports and invoices for the Utility's consultants, a combined amount of \$6,402 was billed for correcting the MFR deficiencies and revising the Utility's filing. According to the invoices, Guastella Associates, Inc. billed the Utility 21.5 hours related to the correction of MFR deficiencies. This included 21 hours by Mr. Guastella at an hourly rate of \$190, and 0.5 hours of administrative work at an hourly rate of \$12. This resulted in a total charge for work on deficiencies by Guastella Associates, Inc. of \$4,119. Additionally, James L. Ade, P.L., billed the Utility for hours related to the correction of MFR deficiencies. Mr. Ade initially supplied staff with an invoice that included the job details but the invoice did not reflect the amount of time worked. Staff requested a detailed report showing time spent on deficiencies from Mr. Ade. Mr. Ade stated that the total amount charged by him for time spent on deficiencies was in the amount of \$4,355. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>9</sup> Accordingly, staff recommends that \$8,474 (\$4,119+\$4,355) be removed as duplicative and unreasonable rate case expense.

The fourth adjustment is in regards to the hourly rate charged by Guastella Associates which includes services by Mr. Guastella and Mr. White. In this proceeding, Mr. Guastella and Mr. White charged \$190 per hour for rate case expense. According to the invoices submitted, 432 total hours were billed for services provided by Mr. Guastella and Mr. White. Staff believes the hourly rate of \$190 is high compared to other accounting and rate consultants that practice before the Commission. While Placid Lakes' decision to retain Guastella Associates for their expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for their services. The Commission has previously reduced Mr. Guastella's hourly rate, and found that an hourly rate of \$140 was appropriate.<sup>10</sup> Applying a similar rate reduction

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<sup>9</sup> See 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.

<sup>10</sup> See Order Nos. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc. and 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.



in this docket, results in a decrease to consulting and accounting fees of \$21,600 [(\$190less\$140)\*432hours].

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresce, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

In summary, staff recommends that Placid Lakes' revised rate case expense be decreased by \$36,074 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$95,164. A breakdown of rate case expense is as follows:

<b><u>Description</u></b>	<b><u>MFR Estimated</u></b>	<b><u>Utility Revised Actual &amp; Estimated</u></b>	<b><u>Staff Adjustments</u></b>	<b><u>Total</u></b>
Legal Fees	\$26,000	\$27,670	(\$4,355)	\$23,315
Consultant Fees-G&W	93,300	86,568	(25,719)	60,849
Consultant Fees- King	5,000	5,000	(5,000)	0
In-House Fees	5,000	6,650	(1,000)	5,650
Filing Fee	2,000	2,000	0	2,000
Printing MFR	1,250	1,250	0	1,250
Published Notice	600	600	0	600
Customer Notices & Postage	<u>1,500</u>	<u>1,500</u>	<u>0</u>	<u>1,500</u>
<b>Total Rate Case Expense</b>	<b><u>\$134,650</u></b>	<b><u>\$131,238</u></b>	<b><u>(\$36,074)</u></b>	<b><u>\$95,164</u></b>
<b>Annual Amortization</b>	<b><u>\$33,663</u></b>	<b><u>\$32,810</u></b>	<b><u>(\$9,019)</u></b>	<b><u>\$23,791</u></b>

In its MFRs, Placid Lakes requested total rate case expense of \$134,650, which amortized over four years would be \$33,663. Thus, rate case expense should be decreased by \$9,872. The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Placid Lakes and the recommended adjustments discussed above, staff recommends annual rate case expense amortization of \$23,791.

Date: August 6, 2009

**Issue 10**: What is the test year water operating income or loss before any revenue increase?

**Recommendation**: Based on the operating expense adjustments discussed in previous issues, the test year operating loss is \$29,694 ~~\$26,365~~ before any revenue increase. (Fletcher)

**Staff Analysis**: This issue is subject to the resolution of other issues. Based on the operating expense adjustments discussed in previous issues, Placid Lakes experienced a net loss of \$29,694 ~~\$26,365~~ for the test year. The schedule for water operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

**Issue 11:** What is the appropriate revenue requirement?

**Recommendation:** The following revenue requirement should be approved: (Fletcher)

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$536,400	<u>\$136,093</u>	<u>\$672,493</u>	<u>25.37%</u>
		<del>\$111,540</del>	<del>\$647,940</del>	<del>20.79%</del>

**Staff Analysis:** The revenue requirement is a summary computation that is dependent upon the previous issues related to rate base, cost of capital, and operating expenses. Placid Lakes requested final rates designed to generate annual revenues of \$705,582. These revenues exceed test year revenues by \$169,182 ( or 31.54 ~~23.97~~ percent).

Based on staff's proposed recommendations concerning the underlying rate base, cost of capital, and operating income issues, Placid Lakes' revenue requirement is \$672,493 ~~\$647,940~~. These revenues exceed Placid Lakes' recommended test year revenues by \$136,093 ~~\$111,540~~ (or 25.37 ~~20.79~~ percent) as shown on attached Schedule 3-A.

**Issue 12:** Should the utility's current three-tiered inclining-block rate structure, with monthly usage blocks of: a) 0-10,000 gallons (10 kgals); b) 10.001-20 kgals; and c) usage in excess of 20 kgals, with usage block rate factors of 1.0, 1.5, and 2.0, respectively, be continued for its water system?

**Recommendation:** Yes. Furthermore, the base facility charge (BFC) cost recovery allocation should be set at 40 percent. (Lingo)

**Staff Analysis:** The current rate structure for the utility's water system is a three-tiered inclining-block rate structure, with monthly usage blocks of: a) 0-10 kgals; b) 10.001-20 kgals; and c) usage in excess of 20 kgals, and corresponding usage block rate factors of 1.0, 1.5 and 2.0, respectively. The monthly BFC for a 5/8" x 3/4" meter is \$9.73, and the corresponding gallonage charges are \$2.80, \$4.15, and \$5.50, respectively. The rate structure is considered conservation-oriented, because price signals are used to encourage customers to reduce consumption. In this case, through the inclining-block rate structure, customers receive increasingly greater price signals at increasing levels of consumption.

The residential customer base is moderately seasonal, with a modest average consumption per customer of approximately 4.1 kgals per month. Approximately 93 percent of the utility's residential bills and 90 percent of the corresponding consumption are captured at usage of 10 kgals or less, while approximately 99 percent of the bills and 96.5 percent of the consumption is captured at usage of 20 kgals or less.

Staff takes several things into consideration when designing rates, including the current rate structure, characteristics of the utility's customer base, various conditions of the utility's Water Use Permit (WUP), and current and anticipated climatic conditions in the utility's service area. The modest average monthly consumption, coupled with the relatively few bills and kgals remaining at usage levels greater than 10 kgals, indicate to staff that a change to a more aggressive inclining-block rate structure is unwarranted. Staff's recommended rate structure, plus two alternative rate structures, is shown on Table 12-1 on the following page. A complete discussion of staff's rate structure methodology is contained in Attachment A.

Based on the foregoing, the information contained on Table 12-1, and the discussion contained in Attachment A, staff recommends that the appropriate rate structure for the utility is a continuation of the three-tiered inclining-block rate structure, with monthly usage blocks of: a) 0-10 kgals; b) 10.001-20 kgals; and c) usage in excess of 20 kgals, and usage block rate factors of 1.0, 1.5, and 2.0. The BFC cost recovery allocation should be set at 40 percent.

TABLE 12-1

<b>PLACID LAKES UTILITIES, INC.</b>			
<b>STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES</b>			
<b>PRE-REPRESSION ANALYSIS</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
Three-Tiered Inclining-Blocks		Three-Tiered Inclining-Blocks BFC = 40 percent	
BFC	\$9.73	BFC	\$10.67 <del>\$10.28</del>
0-10 kgal	\$2.80	0-10 kgals	\$3.81 <del>\$3.67</del>
10.001-20 kgal	\$4.15	10.001-20 kgals	\$5.72 <del>\$5.51</del>
20+ kgal	\$5.50	20+ kgals	\$7.62 <del>\$7.34</del>
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$9.73	0	\$10.67 <del>\$10.28</del>
2	\$15.33	2	\$18.29 <del>\$17.62</del>
3	\$18.13	3	\$22.10 <del>\$21.29</del>
5	\$23.73	5	\$29.72 <del>\$28.63</del>
7	\$29.33	7	\$37.34 <del>\$35.97</del>
10	\$37.73	10	\$48.77 <del>\$46.98</del>
<b>Alternative 1</b>		<b>Alternative 2</b>	
Three-Tiered Inclining-Blocks BFC = 35 percent		Three-Tiered Inclining-Blocks BFC = 30 percent	
BFC	\$9.34 <del>\$9.00</del>	BFC	\$8.00 <del>\$7.71</del>
0-10 kgals	\$4.12 <del>\$3.97</del>	0-10 kgals	\$4.44 <del>\$4.28</del>
10.001-20 kgals	\$6.18 <del>\$5.96</del>	10.001-20 kgals	\$6.66 <del>\$6.42</del>
20+ kgals	\$8.24 <del>\$7.94</del>	20+ kgals	\$8.88 <del>\$8.56</del>
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$9.34 <del>\$9.00</del>	0	\$8.00 <del>\$7.71</del>
2	\$17.58 <del>\$16.94</del>	2	\$16.88 <del>\$16.27</del>
3	\$21.70 <del>\$20.91</del>	3	\$21.32 <del>\$20.55</del>
5	\$29.94 <del>\$28.85</del>	5	\$30.20 <del>\$29.11</del>
7	\$38.18 <del>\$36.79</del>	7	\$39.08 <del>\$37.67</del>
10	\$50.54 <del>\$48.70</del>	10	\$52.40 <del>\$50.51</del>