

**Ann Cole**

**From:** Tim Devlin  
**Sent:** Monday, December 13, 2010 11:23 AM  
**To:** Ann Cole  
**Cc:** Commissioners Advisors; Curt Kiser; Mary Anne Helton; Chuck Hill; Marshall Willis; Cheryl Bulecza-Banks; Bart Fletcher  
**Subject:** FW: Request for Oral Modification for Item No. 16, December 14, 2010, Agenda Conference, Docket No. 090531-WS - Lake Placid Utilities, Inc.

Approved.

**From:** Andrew Maurey  
**Sent:** Friday, December 10, 2010 4:35 PM  
**To:** Tim Devlin; Sharon Allbritton  
**Cc:** Marshall Willis; Cheryl Bulecza-Banks; Bart Fletcher  
**Subject:** FW: Request for Oral Modification for Item No. 16, December 14, 2010, Agenda Conference, Docket No. 090531-WS - Lake Placid Utilities, Inc.

Item 16 relates to a staff-assisted rate case for Lake Placid Utilities, Inc. Upon concerns expressed by OPC, staff reviewed its calculations for non-used and useful (U&U) wastewater depreciation expense (Issue 7), for wastewater rates (Issues 9 and 11), and four-year rate reductions for water and wastewater (Issue 13). Based on this review, staff's non-U&U depreciation expense adjustment is understated because our formula to derive the adjustment was based on net plant rather than gross plant. Second, the number of bills to derive staff's recommended wastewater rates were misstated for the DeeAnn Estates HOA. Third, the staff recommended four-year reduction in Issue 13 incorrectly includes the approved rate case expense from the Utility's last rate case, instead of only the rate case expense associated with the instant case. Staff requests approval to make oral modifications correcting staff's recommended non-used and useful wastewater depreciation expense adjustment, wastewater rates, and four-year rate reductions for water and wastewater. The specific requested changes are reflected below in type and strike format as well as highlighted in yellow:

**1) Page 17, Issue 7, Recommendation Paragraph**

**Recommendation:** The appropriate amount of operating expense for the Utility is \$58,456 for water and \$78,181 ~~\$81,479~~ for wastewater. (Roberts, Deason)

**2) Page 20, Issue 7, Depreciation Expense write-up in Staff Analysis Section**

**Depreciation Expense (Net of Amortization of CIAC)** – Lake Placid recorded depreciation expense of \$10,551 for water and \$12,943 for wastewater. Staff auditors calculated depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff has recommended the following adjustments to depreciation expense:

Table 7-2

<u>Adjustment Description</u>	<u>Water</u>	<u>Was</u>
1. To correct for rule rates and Comm. Ordered beg bal. (AF3)	(\$332)	\$
2. To correct amortization for rule rates. (AF 3)	92	
3. To remove plant additions that should have been expensed. (AF 4)	(57)	
4. To reflect depreciation on pressure relief valve. (AF 8)	15	
5. To reflect depreciation on well screens. (AF 9)	14	
6. To reflect depreciation on pro forma plant.	0	
7. To reflect change in headquarter allocation per ERC. (AF 15)	(420)	
8. To correct vehicle depreciation. (AF 17)	(99)	
9. To record amortization for tap fees not recorded. (AF 25)	(34)	
10. Reflect appropriate amount of Dep. Expense for Project Phoenix. (Issue 3)	(180)	
11. New Phone system.	21	
12. Non-U&U depreciation expense.	0	

DOCUMENT NUMBER-DATA  
 09896 DEC 13 2010

FPSC-COMMISSION CLERK

12/13/2010

Total	(\$980)	(3,779) <del>(\$630)</del>
-------	---------	-------------------------------

Based on the above, staff's recommended adjustments to depreciation expense result in net decreases of \$980 for water and ~~\$3,779~~ ~~\$630~~ for wastewater. These adjustments result in a net depreciation expense of \$9,571 for water and ~~\$9,163~~ ~~\$12,312~~ for wastewater.

### **3) Pages 20-21, Issue 7, Taxes Other Than Income write-up in Staff Analysis Section**

**Taxes Other Than Income (TOTI)** – The Utility recorded a TOTI balance of \$4,385 for water and \$3,735 for wastewater. Pursuant to Audit Finding No. 5, TOTI should be increased by \$4,278 for water and \$1,190 for wastewater to reflect the appropriate property tax for the Utility. Regulatory assessment fees (RAFs) should be reduced by \$3,830 for water and increased by \$3,660 for wastewater to correct the accrual pursuant to Audit Finding No. 6. In addition, staff increased this expense for water by \$21 and increased this expense for wastewater by \$5 to reflect taxes related to annualized revenue. Also, staff has increased this expense for water by \$41 and wastewater by \$42 to reflect the change in headquarter tax per ERC. Pursuant to Audit Finding No. 17, TOTI should be decreased by \$275 for payroll taxes for both water and wastewater. Additionally, staff has decreased payroll taxes by \$316 for water and \$34 for wastewater to reflect the decreases in salaries based on staff's benchmark adjustment discussed above. Staff has increased the ad valorem tax for water by \$356 and decreased wastewater by \$650 to reflect the 2009 tax. Finally, as discussed in Issue 7, staff has recommended revenue increases of \$20,924 for water and ~~\$4,320~~ ~~\$7,617~~ for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, the TOTI should be increased by \$942 for water and ~~\$194~~ ~~\$343~~ for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment to TOTI is an increase of \$1,217 for water and ~~\$4,132~~ ~~\$4,281~~ for wastewater. Staff recommends TOTI for the test year of \$5,602 for water and ~~\$7,868~~ ~~\$8,016~~ for wastewater.

### **4) Pages 21, Issue 7, Operating Expenses Summary write-up in Staff Analysis Section**

**Operating Expenses Summary** – Based on the adjustments discussed above, staff recommends operating expenses of \$58,456 for water and ~~\$78,181~~ ~~\$81,479~~ for wastewater. Water and wastewater operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

### **5) Page 22, Issue 8**

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$73,341 for water and ~~\$85,448~~ ~~\$88,745~~ for wastewater. (Roberts)

**Staff Analysis:** Lake Placid should be allowed an annual increase of \$20,924 (or 39.92 percent) for water and an annual increase for wastewater of ~~\$4,320~~ ~~\$7,617~~ (or ~~5.32~~ ~~9.39~~ percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.75 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$192,035	\$93,752
Rate of Return	<u>x .0775</u>	<u>x .0775</u>
Return on Rate Base	\$14,885	\$7,267
Adjusted O & M expense	38,342	58,738
Depreciation expense (Net)	9,571	<u>9,163</u> <del>12,312</del>
Amortization	0	0
Taxes Other Than Income	5,602	<u>7,868</u> <del>8,016</del>
Income Taxes	<u>4,941</u>	<u>2,412</u>

Revenue Requirement	\$73,341	<del>\$85,448</del> <del>\$88,745</del>
Less Test Year Revenues	52,417	81,128
Annual Increase	<u>\$20,924</u>	<u>\$4,320</u> <u>\$7,617</u>
Percent Increase/(Decrease)	<u>39.92%</u>	<u>5.32%</u> <u>9.39%</u>

6) Page 26, Table 9-2 of Issue 9 in Staff Analysis Section

TABLE 9-2

LAKE PLACID UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
<u>Current Rate Structure and Rates</u>		<u>Recommended Rate Structure and Rates</u>	
Monthly BFC/ uniform kgals charge BFC = 48%		BFC/uniform kgals charge BFC = 50%	
BFC	\$16.66	BFC	\$15.64 <del>\$18.89</del>
All kgals	\$5.20	All kgals	\$6.27 <del>\$6.22</del>
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
Cons (kgals)		Cons (kgals)	
0	\$16.66	0	\$15.64 <del>\$18.89</del>
1	\$21.86	1	\$21.91 <del>\$25.11</del>
2	\$27.06	2	\$28.18 <del>\$31.33</del>
3	\$32.26	3	\$34.45 <del>\$37.55</del>
5	\$42.66	5	\$46.99 <del>\$49.99</del>
6	\$47.86	6	\$53.26 <del>\$56.21</del>
<u>Alternative 1</u>		<u>Alternative 2</u>	
BFC/uniform kgals charge BFC = 60%		BFC/uniform kgals charge BFC = 70%	
BFC	<del>\$18.77</del> <del>\$22.61</del>	BFC	\$21.89 <del>\$26.34</del>
All kgals	<del>\$5.01</del> <del>\$4.99</del>	All kgals	\$3.76 <del>\$3.75</del>
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
Cons (kgals)		Cons (kgals)	
0	<del>\$18.77</del> <del>\$22.61</del>	0	\$21.89 <del>\$26.34</del>
1	<del>\$23.78</del> <del>\$27.60</del>	1	\$25.65 <del>\$30.09</del>
2	<del>\$28.79</del> <del>\$32.59</del>	2	\$29.41 <del>\$33.84</del>
3	<del>\$33.80</del> <del>\$37.58</del>	3	\$33.17 <del>\$37.59</del>
5	<del>\$43.82</del> <del>\$47.56</del>	5	\$40.69

				\$45.09
6	\$48.83	<del>\$52.55</del>	6	\$44.45
				<del>\$48.84</del>

**7) Page 28, Issue 11**

**Issue 11:** What are the appropriate rates for this utility?

**Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of \$73,341 for water and \$85,448 ~~\$88,745~~ for wastewater, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within no less than 10 days after the date of the notice. (Bruce, Roberts)

**Staff Analysis:** Excluding miscellaneous service revenues of \$1,024 for water, the recommended rates should be designed to produce revenues of \$73,341 for the water system and \$85,448 ~~\$88,745~~ for the wastewater system. There are no miscellaneous service revenues for the wastewater system.

Staff recommends that the Utility's current residential and non-residential water and wastewater rate structures, which consist of a monthly base facility (BFC)/uniform gallonage charge rate structures remain unchanged. In addition, the bulk wastewater rate should continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80 percent of the number of ERCs actually connected to the system. Also, the bulk customers' gallonage charge should be set at 80 percent of the general service gallonage charge. Furthermore, the two unmetered residential wastewater customers should be implemented a flat rate structure. The BFC cost recovery for the water and wastewater system should be set at 52 percent and 50 percent, respectively.

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. Moreover, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

**8) Page 30, Issue 13, First Paragraph of Staff Analysis Section**

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$4,475 ~~\$12,315~~ for water and \$6,671 ~~\$16,908~~ for wastewater. Using Lake Placid's current revenues, expenses, capital structure, and customer base, the reduction in water and wastewater revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B, respectively.

**9) Page 31, Issue 14, Second Paragraph of Staff Analysis Section**

**Staff Analysis:** This recommendation proposes an increase in water and wastewater rates. A timely protest might

delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$12,218 for water and ~~\$4,320~~ ~~\$4,448~~ for wastewater. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

**10) Page 40, Schedule No. 3-B**

Lake Placid Utilities Service, Inc. Statement of Wastewater Operations Test Year Ended 12/31/08				Schedule No. 3-B Docket No. 090531-WS	
Description	Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$81,006</u>	<u>\$122</u>	<u>\$81,128</u>	<u>\$4,320</u> <del>\$7,617</del> 5.32% <del>9.39%</del>	<u>\$85,448</u> <del>\$88,745</del>
<b>Operating Expenses</b>					
2 Operation & Maintenance	\$59,073	(\$335)	\$58,738		\$58,738
3 Depreciation	12,943	(630)	<u>9,163</u> <del>12,312</del>		<u>9,163</u> <del>12,312</del>
4 Amortization	0	0	0		0
5 Taxes Other Than Income	3,735	3,938	7,673	<u>194</u> <del>343</del>	<u>7,868</u> <del>8,016</del>
6 Income Taxes	<u>(5,296)</u>	<u>4,971</u>	<u>860</u> <del>(325)</del>	<u>1,552</u> <del>2,737</del>	<u>2,412</u>
7 <b>Total Operating Expense</b>	<u>\$70,455</u>	<u>\$7,944</u>	<u>\$76,434</u> <del>\$78,398</del>	<u>\$1,747</u> <del>\$3,080</del>	<u>\$78,181</u> <del>\$81,479</del>
8 <b>Operating Income</b>	<u>\$10,551</u>	<u>(\$7,821)</u>	<u>\$4,694</u> <del>\$2,730</del>	<u>\$2,573</u> <del>\$4,537</del>	<u>\$7,267</u>
9 <b>Rate Base</b>	<u>\$39,196</u>		<u>\$93,752</u>		<u>\$93,752</u>
10 <b>Rate of Return</b>	<u>26.92%</u>		<u>5.01%</u> <del>2.91%</del>		<u>7.75%</u>

**11) Page 42, Schedule No. 3-C**

(O & M EXPENSES CONTINUED)			
9.	Transportation Expense (650/ 750)		
	a. To correct allocation for salaries, payroll taxes and vehicles (AF 17)	\$352	\$554
	b. To reflect fuel expense adjustment.	<u>(110)</u>	<u>(50)</u>
	Subtotal	<u>\$242</u>	<u>\$504</u>
10.	Insurance Expenses (655/ 755)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	<u>\$66</u>	<u>\$94</u>
11.	Rate Case Expense (665/ 765)		
	a. To reflect the appropriate Rate Case expense	<u>(\$1,370)</u>	<u>\$3,067</u>
12.	Bad Debt Expense (670/770)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	<u>(\$610)</u>	<u>\$321</u>
13.	Miscellaneous Expense (675/ 775)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	(\$38)	\$21
	b. To reflect the appropriate telecommunication expense	<u>(120)</u>	<u>(190)</u>
	Subtotal	<u>(\$158)</u>	<u>(\$169)</u>
	Total O&M Adjustments	<u>(\$15,402)</u>	<u>(\$335)</u>
	<u>Depreciation Expense - Net</u>		
1	To correct for rule rates and Comm. Ordered beg bal (AF3)	(\$332)	\$2,441
2	To correct amortization for rule rates (AF 3)	92	1,693
3	To remove plant additions that should have been expensed (AF 4)	(57)	0
4	To reflect depreciation on pressure relief valve (AF 8)	15	0
5	To reflect depreciation on well screens (AF 9)	14	0
6	To reflect depreciation on pro forma plant	0	239
7	To depreciation expense allocation change for ERCs (AF 15)	(420)	(99)
8	To correct vehicle depreciation (AF 17)	(99)	(99)
9	To record amortization for tap fees not recorded (AF 25)	(34)	0
10	To reflect appropriate amount of Acc. Dep. allocated from Project Phoenix	(180)	(281)
11	New Phone system	21	33
			<u>(7,706)</u>
12	Non-U&U depreciation expense.	0	<u>(4,557)</u>
	Subtotal	<u>(\$980)</u>	<u>(\$3,779)</u>
			<u>(\$630)</u>
	<u>Taxes Other Than Income</u>		
1	To reflect the appropriate property tax (AF 5)	\$4,278	\$1,190
2	To correct RAF's for accruals (AF 6)	(3,830)	3,660
3	To reflect taxes related to annualized revenue (AF 14)	21	5
4	To change in headquarter tax for ERC change (AF 15)	41	42
5	To reduce payroll taxes associated with payroll correction (AF 17)	(275)	(275)
6	To reflect appropriate payroll taxes	(316)	(34)
7	To reflect 2009 Ad Valorem taxes	<u>356</u>	<u>(650)</u>
	Subtotal	<u>\$275</u>	<u>\$3,938</u>

**12) Page 43, Schedule No. 4-A**

Lake Placid Utilities Service, Inc. Water Monthly Service Rates Test Year Ended 12/31/08		Schedule No. 4-A Docket No. 090531-WS	
	Rates Prior to Filing	Staff Recomm. Final	Monthly Rate Reduction

**Residential Service, General Service and Multi-Residential**

Base Facility Charge by Meter Size:

5/8" x 3/4"	\$12.71	\$ 15.45	<u>\$0.94</u> <del>\$2.59</del>
3/4"	\$19.07	\$ 23.18	<u>\$1.41</u> <del>\$3.89</del>
1"	\$31.78	\$ 38.63	<u>\$2.36</u> <del>\$6.49</del>
1-1/2"	\$63.54	\$ 77.25	<u>\$4.71</u> <del>\$12.97</del>
2"	\$101.67	\$ 123.60	<u>\$7.54</u> <del>\$20.75</del>
3"	\$203.33	\$ 247.20	<u>\$15.08</u> <del>\$41.51</del>
4"	\$317.21	\$ 386.25	<u>\$23.57</u> <del>\$64.86</del>
6"	\$635.42	\$ 772.50	<u>\$47.14</u> <del>\$129.71</del>
Gallage Charge, per 1,000 Gallons	\$3.67	\$6.23	<u>\$0.38</u> <del>\$1.05</del>

**Typical Residential Bills 5/8" x 3/4" Meter**

3,000 Gallons	\$23.72	\$34.14
5,000 Gallons	\$31.06	\$46.60
10,000 Gallons	\$49.41	\$77.75

**13) Page 44, Schedule No. 4-B**

Lake Placid Utilities Service, Inc. Wastewater Monthly Service Rates Test Year Ended 12/31/08		Schedule No. 4-B Docket No. 090531-WS	
	Rates Prior to Filing	Staff Recomm. Final	Monthly Rate Reduction
<b>Residential</b>			
Base Facility Charge All Meter Sizes:	\$16.66	<u>\$15.64</u> <del>\$18.89</del>	\$1.22 <del>\$3.60</del>
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$5.20	<u>\$6.27</u> <del>\$6.22</del>	\$0.49 <del>\$1.19</del>
<b>General Service</b>			
Base Facility Charge by Meter Size:			
5/8" x 3/4"	\$16.66	<u>\$15.64</u> <del>\$18.89</del>	\$1.22 <del>\$3.60</del>
3/4"	\$25.00	<u>\$23.46</u> <del>\$28.34</del>	\$1.83 <del>\$5.40</del>
1"	\$41.66	<u>\$39.10</u> <del>\$47.23</del>	\$3.05 <del>\$9.00</del>
1-1/2"	\$83.32	<u>\$78.20</u> <del>\$94.45</del>	\$6.11 <del>\$18.00</del>
2"	\$133.32	<u>\$125.12</u> <del>\$151.12</del>	\$9.77 <del>\$28.79</del>
3"	\$266.63	<u>\$250.24</u> <del>\$302.24</del>	\$19.54 <del>\$57.58</del>
4"	\$416.62	<u>\$391.00</u> <del>\$472.25</del>	\$30.53 <del>\$89.98</del>
6"	\$833.26	<u>\$782.00</u> <del>\$944.50</del>	\$61.06 <del>\$179.95</del>
Gallage Charge, per 1,000 Gallons	\$6.24	<u>\$7.52</u> <del>\$7.47</del>	\$0.59 <del>\$1.42</del>
<b>Bulk Rate</b>			
DeeAnn Estates HOA	\$567.95	<u>\$532.92</u> <del>\$644.15</del>	\$41.61 <del>\$122.73</del>

DeeAnn Gallonage Charge per 1,000	\$4.99	<u>\$6.02</u> <del>\$4.98</del>	\$0.47 <del>\$0.95</del>
<b>Flat rate for unmetered residential customers</b>	\$0.00	<u>\$27.55</u> <del>\$30.74</del>	\$2.15 <del>\$5.85</del>
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>			
3,000 Gallons	\$32.26	<u>\$34.45</u> <del>\$37.55</del>	
5,000 Gallons	\$42.66	<u>\$46.99</u> <del>\$49.99</del>	
10,000 Gallons (Wastewater Gallonage Cap - 6,000 Gallons)	\$68.66	<u>\$53.26</u> <del>\$49.99</del>	