

VOTE SHEET

October 4, 2011

Docket No. 100426-WS – Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. (Deferred from the August 9, 2011 Commission Conference, revised recommendation filed.)

Issue 1: Is the quality of service provided by Lake Utility Services, Inc. satisfactory?

Recommendation: Yes. The overall quality of service provided by the Utility is satisfactory.

APPROVED

Issue 2: Should the audit adjustments to rate base and net operating income to which the Utility agrees be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility, the following adjustments should be made to rate base and net operating income as set forth in the analysis portion of staff's memorandum dated September 22, 2011.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures for the majority, including "Julie M. on all other issues" and "Lisa Edy".

Handwritten signatures for the dissenting vote, including "Julie M. on Issue 16".

REMARKS/DISSENTING COMMENTS:

Commissioners Belliard and Brown dissented

on Issue 16.

DOCUMENT NUMBER-DATE

07237 OCT-5 =

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Issue 3: Should any adjustment be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by \$80,451 for water and \$26,546 for wastewater. In addition, accumulated depreciation should be reduced by \$35,770 for water and \$11,802 for wastewater. Depreciation expense should be decreased by \$26,732 for water and \$8,821 for wastewater.

APPROVED

Issue 4: Should any adjustments be made to the Utility's requested pro forma plant additions?

Recommendation: Yes. Water and wastewater plant should be increased by \$200,209 and \$28,808, respectfully. Corresponding adjustments to accumulated depreciation should be made to decrease water by \$27,959, and increase wastewater by \$1,602. Corresponding adjustments should also be made to increase depreciation expense by \$8,686 for water and \$1,602 for wastewater. Moreover, property taxes should also be increased by \$2,855 for water and \$1,316 for wastewater.

APPROVED, with modification to the raw water main project; plan additions and a step increase to be ^{initiated - ac} ~~initiated~~ once the program is completed and documentation that there is a need and three bids are obtained.

Issue 5: What are the used and useful percentages of the Utility's water system?

Recommendation: The water treatment plants for all three water systems are 100 percent used and useful (U&U). The storage facilities for the LUSI North and Lake Groves system are 100 percent U&U. The distribution systems in all three service areas are 100 percent U&U. Staff also recommends that O&M expenses related to chemicals and purchased power be reduced by a total of \$30,604 to account for 5.41 percent excessive unaccounted for water (EUW).

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Issue 6: What are the used and useful percentages of the Utility's wastewater system?

Recommendation: The wastewater treatment plant is 53 percent U&U. The portions of the plant designated as providing reuse are 100 percent U&U. The collection system is 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$1,385,522, \$96,198, and \$6,588, respectively.

APPROVED

Issue 7: Should any adjustment be made to deferred rate case expense?

Recommendation: Yes. Consistent with the annual amortization amount approved in the Utility's last rate case and Commission practice, deferred rate case expense (DRCE) included in the working capital allowance should be decreased by \$245,856, or \$184,859 for water and \$60,997 for wastewater.

APPROVED

Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$586,915 for water and \$209,490 for wastewater. The working capital allowance for water should be reduced by \$47,972 in addition to the adjustments recommended in Issue 7.

APPROVED

Issue 9: What is the appropriate rate base for the historical test year ended June 30, 2010?

Recommendation: The appropriate rate base for the historical test year ended June 30, 2010, is \$18,224,480 for water and \$4,794,157 for wastewater.

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Issue 10: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.80 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

APPROVED

Issue 11: What is the appropriate cost rate for short-term debt?

Recommendation: The appropriate cost rate for short-term debt is 3.17 percent.

APPROVED

Issue 12: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the historical test year ended June 30, 2010?

Recommendation: The appropriate weighted average cost of capital for the historical test year ended June 30, 2010, is 8.13 percent.

APPROVED

Issue 13: Should any further adjustments be made to test year revenues?

Recommendation: Yes. To reflect income from plant leased to others, revenues should be increased by \$12,261 and \$4,045 for water and wastewater, respectively. In addition, to reflect additional revenues from improved meter reading of customer usage, water revenue should be further increased by \$60,704.

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Issue 14: Should any adjustment be made to the Utility's pro forma O&M expense related to the amortization of LUSI's cost to obtain a consumptive use permit?

Recommendation: Yes. The amortization of the cost to obtain the CUP should be increased from 30 months to 60 months and water pro forma O&M expense should be reduced by \$47,972.

APPROVED; *approved the utility's position - amortizing for the length of the permit.*

Issue 15: Should any adjustments be made to the Utility's salaries and wages expense and employee pensions and benefits expense?

Recommendation: Yes. Salaries and wages expense should be reduced by \$62,658 for water and \$20,674 for wastewater. In addition, employee pensions and benefits expense should be reduced by \$48,411 for water and \$15,972 for wastewater. Corresponding adjustments should be made to reduce payroll taxes by \$6,085 for water and \$2,008 for wastewater.

APPROVED

Issue 16: Should an adjustment be made to directors and officers liability insurance expense?

Recommendation: Yes. To reflect the appropriate amount of allocated directors and officers (D&O) liability insurance expense, O&M expenses should be reduced by \$1,828 for water and \$603 for wastewater.

APPROVED *with the recognition that the result would be a 50/50 split. Commissioners Balbis and Brown dissented*

Issue 17: Should any adjustments be made to the Utility's bad debt expense?

Recommendation: Yes. LUSI's bad debt expense should be based on a 3-year average. Accordingly, water and wastewater bad debt expense should be reduced by \$36,454 and \$12,058, respectively.

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Issue 18: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$329,870. This expense should be recovered over four years for an annual expense of \$82,467, or \$62,008 for water and \$20,459 for wastewater. Therefore, annual rate case expense should be reduced by \$22,338 for water and \$7,370 for wastewater.

APPROVED

Issue 19: How should the net gain on sale of land be treated?

Recommendation: The net gain on sale of land realized by LUSI should be amortized over five years and deducted from the Utility's expenses. The annual amortization should be \$13,417 for water and \$14,238 for wastewater.

APPROVED

the Utility to provide additional information to staff within 10 days (concerning the property)

Issue 20: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income is \$843,646 for water and \$467,399 for wastewater.

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Issue 21: What is the appropriate revenue requirement for the historical test year ended June 30, 2010?

Recommendation: The following revenue requirement should be approved.

	Test Year Revenues	(\$ Decrease) \$ Increase	Revenue Requirement	(% Decrease) % Increase
Water	\$4,308,670	\$1,070,545	\$5,379,215	24.85%
Wastewater	\$2,101,009	(\$130,494)	\$1,970,515	(6.21%)

APPROVED

Issue 22: What are the appropriate numbers of bills, ERCs and consumption for the Utility's water, wastewater, and reuse systems for the historical test year ending June 30, 2010?

Recommendation: The appropriate numbers of bills, ERCs and consumption for the Utility's water, wastewater, and reuse systems for the historical test year ending June 30, 2010 are shown in Table 22-1 below.

Table 22-1

LAKE UTILITY SERVICES, INC. STAFF'S RECOMMENDED TEST YEAR BILLING DETERMINANTS FOR THE HISTORICAL TEST YEAR ENDING JUNE 30, 2010					
<u>Water System</u>		<u>Wastewater System</u>		<u>Reuse System</u>	
Bills	102,813	Bills	33,456	Bills	0
ERCs	111,368	ERCs	37,844	ERCs	0
Consumption (kgals)	1,471,056	Consumption (kgals)	254,416	Consump	0

APPROVED

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Issue 23: What are the appropriate rate structures for the Utility's water, wastewater and reuse systems?

Recommendation: The appropriate water system rate structure for the Utility's residential water system is a continuation of a three-tiered inclining block rate structure, with usage blocks for monthly usage of: a) 0-5 kgals; b) 5.001-10 kgals; and c) for usage in excess of 10 kgals. The appropriate water system rate structure for the Utility's remaining customer classes is a continuation of the BFC/uniform gallonage charge rate structure. The pre-repression BFC cost recovery percentage should be set at 20 percent.

As discussed in Issue 21, staff recommends a 6.21 percent revenue requirement reduction to the Utility's wastewater system. Staff recommends that this revenue requirement decrease be applied across the board to the Utility's wastewater rates, thereby keeping the wastewater system's current BFC/gallonage charge rate structure intact. The residential customers' billing for monthly consumption should continue to be capped at 10 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential gallonage charge. The appropriate rate structure for the Utility's reuse system is a continuation of the BFC/uniform gallonage charge rate structure.

APPROVED

Issue 24: Are repression adjustments appropriate for the Utility's water and wastewater systems, and, if so, what are the appropriate adjustments for the respective systems?

Recommendation: A repression adjustment is appropriate for the water system only. Residential water consumption should be reduced by 9.5 percent, resulting in a consumption reduction of approximately 133,592 kgals. Total water consumption for rate setting is 1,337,464 kgals, which represents an 9.1 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$35,891 in purchased power expense, \$12,702 in chemicals expense, and \$2,290 in regulatory assessment fees (RAFs). The post-repression revenue requirement for the water system is \$5,237,387. As discussed in Issue 21, staff recommends a revenue requirement reduction to the wastewater system. Therefore, no repression adjustment is recommended for that system.

In order to monitor the effect of the rate change, the Utility should be ordered to file reports for its respective water and wastewater systems, detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

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Issue 25: What are the appropriate rates for the Utility's water, wastewater and reuse systems?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A of staff's memorandum dated September 22, 2011, and the appropriate monthly wastewater and reuse rates are shown on Schedule 4-B. Excluding miscellaneous service charges, and after the effects of repression, the recommended water rates produce revenues of \$5,237,387. After staff's recommended revenue requirement decrease and excluding miscellaneous service charges, the recommended wastewater rates produce revenues of \$1,958,571. The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, 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. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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Issue 26: Should the Utility be authorized to revise its water service availability charges, and if so, what are the appropriate charges?

Recommendation: Yes. LUSI's water service availability charges should be revised. The recommended charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised water service availability charges are reflected below.

Main Extension Charge	\$1,426
Plant Capacity Charge	\$1,157
Meter Installation Charges:	
5/8" x 3/4"	\$150
1"	\$250

APPROVED

Issue 27: Should the Utility's wastewater service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Yes. LUSI's wastewater service availability charges should be revised. The recommended charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised wastewater service availability charges are reflected below.

Main Extension Charge	\$1,243
Plant Capacity Charge	\$558

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Issue 28: In determining whether any portion of the interim water revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised water revenue requirement for the interim collection period should be compared to the amount of interim water revenue requirement granted. This results in a refund of 4.57 percent. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made.

APPROVED

Issue 29: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's memorandum dated September 22, 2011, to remove \$75,485 for water and \$24,906 for wastewater related the annual rate case expense, grossed up for RAFs, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

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Issue 30: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission-approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, LUSI should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

APPROVED

Issue 31: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

APPROVED