

CK# 1306  
\$1,200.00  
8-22-16

# Lakeside Waterworks, Inc.

August 18, 2016

DATE DEPOSIT

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2016 AUG 26 AM 8:26  
COMMISSION CLERK

Office of Commission Clerk  
Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399

*Re: Application for Staff Assisted Rate Case (SARC) in Lake County by Lakeside Waterworks, Inc.*

Dear Commission Clerk,

Lakeside Waterworks, Inc. (Lakeside or Utility) submits its application for a staff assisted rate case (SARC) in Lake County by Lakeside Waterworks, Inc. In support of its application, Lakeside submits the following information.

**Need for Rate Relief**

Lakeside's last SARC was in Docket No. 130194-WS, which was approved in PSC Order No. PSC-15-0013-PAA-WS, issued January 2, 2015 (2015 SARC Order). The 2015 SARC Order approved a Settlement Agreement between the Office of Public Counsel (OPC), the Utility, and the Shangri-La by the Lake, Homeowners' Association (Homeowners). The approved rates were phased in over a two (2) year period.

Water Well Replacement -Subsequent to the issuance of the 2015 SARC Order, the Utility unfortunately experienced a collapsed well. This was the primary well supplying potable water to the customers. Lakeside attempted to rehabilitate this well with a private well driller, but was unsuccessful. The cost for the attempted rehabilitation was \$19,152. Therefore, Lakeside had to permit and drill a new well to replace the one which collapsed. The new replacement well was placed into service this year (2016). The cost of the replacement well was \$82,450. Lakeside is requesting the Commission approve the retirement and recovery of the loss on this collapsed well which was forced to retire early, as well as an amortization of both the early retirement and attempted rehabilitation costs. The Utility believed it was prudent to attempt rehabilitation, since this would have been less costly than to drill the new well. Lakeside has calculated the amortization of the loss on early retirement pursuant to Rule 25-30.433(9), F.A.C. as follows:

Lakeside Waterworks - Well Retirement	<u>Two Wells</u>	<u>One Well</u>
Wells and Springs	\$ 31,912.00	\$ 15,956.00
Accumulated Depreciation as of 6/30/16	\$ 28,856.86	\$ 14,428.43
Loss on retirement	\$ 3,055.14	\$ 1,527.57
Additional Capital for Rehab attempts		\$ 19,152.00
Total Loss Amount to Amortize		\$ 20,679.57

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Amortization pursuant to Rule 25-30.433(9) FAC			
Annual Depreciation	3.70%	\$	16,664.62
Amount of Retirement		\$	20,679.57
Ratio of Depr/Plant			1.240926288
Use 10 YEAR Amortization (Dkts 140239-WS & 150102-SU)			10
Annual Amortization of Loss		\$	2,067.96
Rate of Return	8.330%	\$	1,722.57
<b>Total Annual Amortization</b>		<b>\$</b>	<b>3,790.52</b>

Wastewater Treatment Plant Replacement - In addition, the wastewater treatment plant (WWTP) is being required to be replaced. The Florida Department of Environmental Protection (FDEP) conducted an inspection of the WWTP on October 13, 2015. In its written inspection report (Attached), the FDEP cited Lakeside as being in non-compliance due to the condition of the WWTP. The FDEP inspection stated:

**Deficiency Description:**

8.1.2 The following structural issues were observed at the facility.

- a. Catwalk corrodes in places
- b. Bulkhead between the aeration tank and the digester is bowed and separated from the supports. The transfer pipe is between the aeration tank and the digester is loose.
- c. The tanks cross beam supports are very rusty

On October 22, 2015 Mr. Deremer of Lakeside Waterworks/ US Water Corp and Mr. Derossett of U.S. Water were contacted about these deficiencies. On October 27, 2015, Mr. Derossett emailed the Department stating that the structural issues regarding support beams and bulkhead will be addressed by the Owner, FPSC and customers to determine the repairs or replacement of the plants structures. No response has been received from Mr. Deremer regarding these issues.

**Permit/Rule or Other Reference:**

8.1.2 Chapter 62-620.610(7): The permittee shall at all times properly operate and maintain the facility and systems of treatment and control, and related appurtenances, that are installed and used by the permittee to achieve compliance with the conditions of this permit.

**Recommendation for Corrective Action:**

8.1.2 Please submit a corrective action plan with time schedule for the repair of the structural issues at the facility within 15 days of receipt of this letter.

On November 30, 2015, Lakeside provided the following response (Attached) to FDEP:

8.1.2 – Structural Issues:

Lakeside Waterworks, Inc. is regulated by the Florida Public Service Commission (FPSC). According to the FPSC, this utility began operation in 1983. Thus the

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infrastructure is approximately 33 years old. Lakeside Waterworks purchased this utility in 2012. In July 2013, Lakeside Waterworks filed for a staff assisted rate case (SARC) with the FPSC in order to recover its operating expenses and earn a fair return on its investment. The SARC was approved in January 2015. The current service rates are not compensatory to recover any additional improvements and/or replacement in either water or wastewater capital items. In 2015, a potable water well collapsed and became inoperable. Lakeside Waterworks is in the process of replacing this potable water well.

Lakeside Waterworks is aware of the current condition of its wastewater treatment plant and remains cognizant of the potential impact in service rates that will need to be charged to its customers. Lakeside Waterworks intends to file a subsequent SARC to recover, not only the cost for the water well replacement, but also for needed repairs and replacement to its wastewater treatment plant.

In order to move forward with these needed repairs and replacements at its wastewater treatment plant, Lakeside Waterworks will need to file for a subsequent SARC to recover the costs involved. This will entail the filing of the SARC and request for recovery in its service rates to make the necessary repairs and replacements.

The following timeline is an estimate to determine the plant issues that need to be resolved satisfactorily to FDEP standards. The aeration and digester tanks are in very poor condition due to corrosion and the age of the treatment plant. As such, Lakeside Waterworks intends to replace the existing metal structures with concrete tanks. The amount of time to design, permit and build these additions would be approximately nine (9) months from start. The work would be dependent on the following: (1) FDEP permitting of the replacements; (2) FPSC approval of the costs in rates; and (3) the customers being advised of the process through the FPSC SARC process. The SARC process takes approximately 18 months for final approval. The application for the SARC rate increase depends on the proper documentation and support for the proposed capital improvements necessary in order to meet the FDEP requirements.

The proposed timeline would be as follows:

Design and Engineering of the wastewater plant improvements - February 2016

FDEP permitting – April 2016

Submit Requests for Bids and bid received to perform the work - June 2016

Submit SARC to PSC in - July 2016

FPSC SARC process to receive approval in rates - August 2017

Complete work at WWTP - May 2018

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Lakeside Waterworks, Inc. requests assistance from the FDEP in (1) receiving expedited permitting, and (2) support for recovery in its SARC with the FPSC. This includes attending the required customer meeting during the SARC process and providing support to the FPSC during the SARC process.

Lakeside submitted its application for a FDEP permit and the final permit was received on June 27, 2016 (Attached). The wastewater treatment plant has been permitted for 15,000 gpd based on a Three Month Average Daily Flow (TMADF). The previous wastewater plant was permitted for 50,000 Annual Average Daily Flow (AADF). By permitting at a TMADF, Lakeside was able to keep the capital costs at a lower amount for the replacement.

Lakeside solicited bid proposals for the new plant and received a proposal from an outside contractor for \$98,210. This is WWTP is a concrete plant and there are few outside contractors that manufacture and install this type of plant.

However, Lakeside's contract operator, U.S. Water Services Corporation has been engaged to install the replacement at less cost. The U.S. Water proposal for replacement is in the amount of \$96,834, which is less than the outside contractor. Lakeside believes it is in the customer's best interest to move forward with the least cost alternative in order to keep the resulting wastewater rates lower. These costs proposals do not include any additional costs for engineering, permitting, construction oversight nor inspections. Lakeside did include the cost for newspaper advertisement required by the FDEP in order to obtain the permitting.

Lakeside is requesting the Commission approve the retirement and recovery of the loss on this WWTP early retirement. Lakeside has calculated the amortization of the loss on early retirement pursuant to Rule 25-30.433(9), F.A.C. as follows:

<b>Lakeside Waterworks - WWTP Retirement</b>		
Treatment and Disposal Equipment		\$ 36,689.21
Accumulated Depreciation as of 6/30/16		\$ 35,469.15
Loss on retirement		\$ 1,220.06
Total Loss Amount to Amortize		\$ 1,220.06
Amortization pursuant to Rule 25-30.433(9) FAC		
Annual Depreciation	6.67%	\$ 2,445.95
Amount of Retirement		\$ 1,220.06
Ratio of Depr/Plant		0.498807642
Use 10 YEAR Amortization (Dkts 140239-WS & 150102-SU)		10
Annual Amortization of Loss		\$ 122.01
Rate of Return	8.330%	\$ 101.63
<b>Total Annual Amortization</b>		<b>\$ 223.63</b>

**Decline in Revenues**

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In addition, the 2015 SARC Order approved a Revenue Requirement of \$60,788 for water and \$60,695 for wastewater based on the approved Operating Ratio Methodology. However, for the requested test year ending June 30, 2015, Lakeside's revenues were \$59,676 for water and \$54,216 for wastewater. This was prior to the replacement of the collapsed water well and the replacement of the wastewater treatment plant.

### **Year End Water Rate Base**

Lakeside is requesting test year for the SARC for the twelve month ending June 30, 2016. In addition, Lakeside is requesting a Year End rate base for its water system since the additional capital costs for the new replacement well represent a significant portion of the water plant in service. If an average rate base were utilized, Lakeside would not be afforded the opportunity to recover its allowed rate of return on the new investment and would be put in the position of requesting a subsequent SARC at a later date.

This is consistent with past Commission practice. See Order Nos. PSC-98-0763-FOF-SU, issued June 3, 1998; PSC-02-1449-PAA-WS, issued October 21, 2002; PSC-00-1774-PAA-WU, issued September 27, 2000; and PSC-01-0323-PAA-SU, issued February 5, 2001. In the last rate case (2015 SARC Order), the Commission approved Water Utility Plant in Service in the amount of \$138,229. For the requested test year ending June 30, 2015, the Water Utility Plant in Service is \$263,806, which is an increase of \$125,507, or 90.75% increase. This represents not only the new replacement well, but also plant improvements to address water quality concerns expressed by the customers. As indicated in the letter to the Shangri-La by the Lake Mobile Homeowners' Association, dated April 5, 2016, the utility replaced the automated aeration at the plant. The utility installed new Whitewater Compressors at both of the existing Hydro tanks.

### **Pro Forma Wastewater Plant**

In addition, as previously stated, Lakeside is requesting approval and recovery of the total cost of the new replacement wastewater treatment plant. This replacement is being required by the Florida Department of Environmental Protection (FDEP) due to the condition of the aged existing plant. Pursuant to Section 367.081(2)(a)2(c), Florida Statutes:

Notwithstanding the provisions of this paragraph, the commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. Such rates may not include charges for allowances for funds prudently invested or similar charges. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection

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Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

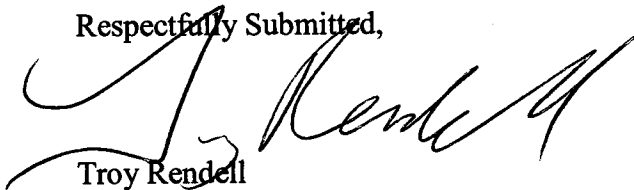
In the 2015 SARC Order, the Commission stated,

During our site visit we observed that the condition of the aging system appears to warrant the repairs contemplated by Lakeside. However, Lakeside elected to withdraw the request for recovery of these particular repair costs from this proceeding. We also observed that Lakeside is actively monitoring the condition of the system, and making temporary repairs, as necessary, to ensure the continued safe operation of the WWTP until permanent measures can be completed. Lakeside intends to proceed with the repairs and seek recovery in a future proceeding. Based on Lakeside's proactive approach to ensuring the safe operation of the system now and in the future, and on Lakeside's status with DEP, we find the operational condition of the WWTP to be satisfactory.

In an attempt to maintain the wastewater rates at a lower level, Lakeside previously attempted to continue making necessary repairs to the existing WWTP, but due to the condition of the plant and the FDEP Inspection Report, it is now necessary to replace this plant.

Lakeside has kept the Homeowners informed of these necessary replacements and the necessity of the impending SARC. See the attached letter submitted to the Homeowners. Due to the necessary capital expenditures for both water and wastewater plant in service, Lakeside believes that the revenue requirement will now be based on the traditional rate of return on rate base.

Respectfully Submitted,



Troy Rendell  
Manager of Regulated Utilities  
*//For Lakeside Waterworks, Inc.*