

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-

DATE: June 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos) MR SH ELD 9/3H TB
Division of Accounting and Finance (D. Buys, Smith II) JS ALM
Division of Engineering (Knoblauch, Salvador) LS P4 W
Office of the General Counsel (Simmons, J. Crawford) JSC

RE: Docket No. 20190031-WU – Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

AGENDA: 07/09/2019 – Regular Agenda – Decision on Suspension of Rates and Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 07/12/19 (60-Day Suspension and Decision on Interim Rates)

SPECIAL INSTRUCTIONS: None

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COMMISSION CLERK

Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or utility) is a Class B utility serving water to approximately 1,973 residential customers and 34 general service customers. The utility's last rate case was in 2013.¹ According to the utility's 2018 annual report, the utility had total operating revenues of \$672,308 and operating expenses of \$540,289. On May 13, 2019, Placid Lakes filed its application for the rate increase at issue in the instant docket.

¹Order No. PSC-13-0646-PAA-WU, in Docket No. 20130025-WU, dated December 5, 2013, *In re: Application for increase in water rates in Highlands County by Placid Lake Utilities, Inc.*

On June 12, 2019, staff sent the utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). The utility corrected the deficiencies within its MFRs on June 21, 2019, which is therefore, the official filing date. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is based on a 13 month average for the period ended December 31, 2018. Placid Lakes requested an interim revenue increase of \$47,908 (7.16 percent). The utility requested a final revenue increase of \$97,116 (14.52 percent).

The 60-day statutory deadline for the Commission to suspend the utility's requested final rates and approve interim rates is July 12, 2019. This recommendation addresses the suspension of Placid Lakes' requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the utility's proposed final water rates be suspended?

Recommendation: Yes. Placid Lakes' proposed final water rates should be suspended.
(Ramos)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(10), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) the Commission's action is protested by a party other than the utility.

Staff reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. Staff believes that further investigation of this information, including on-site inspections, is needed. Staff initiated an audit of Placid Lakes' books and records. The audit is tentatively due on August 13, 2019. In addition, staff sent its first data request to the utility on June 21, 2019. The utility's response to the data request is due on July 22, 2019. Based on the foregoing, staff recommends Placid Lakes' proposed final water rates be suspended.

Issue 2: Should any interim revenue increase be approved?

Recommendation: Yes, Placid Lakes should be authorized to collect annual water revenues as indicated below:

	Adjusted Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Water	\$685,384	\$30,646	\$716,030	4.47%

(Smith, Salvador, Ramos)

Staff Analysis: On May 13, 2019, Placid Lakes filed its rate base, cost of capital, and operating statements to support its requested interim increase in water rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.082(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the utility's filing, staff believes that the utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed Placid Lakes' interim request, as well as Order No. PSC-13-0646-PAA-WU (Order), in which the Commission last established rate base, and determined that an adjustment of \$16,845 should be made to test year revenues.

Staff attached accounting schedules to illustrate the recommended interim rate base, capital structure, and test year operating income amounts. The rate base schedule is labeled as Schedule No. 1, capital structure is labeled as Schedule No. 2, the operating income schedule is labeled as Schedule No. 3-A, and adjustments to operating income schedule is labeled as Schedule No. 3-B.

Rate Base

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the utility's most recent rate proceeding. Also, pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in Placid Lakes' last rate case must be used for interim purposes. In the Order, the Commission found that Placid Lakes' water treatment plant and storage are 100 percent U&U and the water distribution system is 79.09 percent U&U. Based on review of the prior Order and the utility's filing in this case, staff recommends that the water treatment plant and storage be considered 100 percent U&U and the water distribution system be considered 79.09 percent U&U. Based on staff's review, no adjustments are necessary to the utility's rate base as filed. Therefore, staff recommends the Placid Lakes' interim rate base should be \$520,365.

Cost of Capital

Based on an analysis of the MFRs and staff's review of the Order, staff believes that no adjustments are necessary to the utility's capital structure as filed. In its interim request, Placid Lakes used the minimum of the range of its last authorized return on equity of 9.33 percent. The appropriate interim weighted cost of capital for Placid Lakes is 6.57 percent.

Net Operating Income

In its MFRs, the utility made an adjustment of \$16,485 to test year revenues to account for adjusted customer bills as a result of complaints. However, staff believes that no adjustments other than rate changes should be made to annualize test year data to calculate the interim revenue requirement because any adjustment aside from rate changes are not relevant to the determination of the achieved rate of return. As a result, staff increased the interim test year operating revenues by \$16,485. Therefore, staff recommends that the appropriate test year operating income, before any revenue increase, should be \$12,337.

Revenue Requirement

Based on the above analysis, staff recommends an interim revenue requirement of \$716,030. This represents an interim increase in annual revenues of \$30,646 (or 4.47 percent). This increase will allow the utility the opportunity to recover its operating expenses and earn a 6.57 percent return on its rate base.

Issue 3: What are the appropriate interim water rates?

Recommendation: Staff recommends an interim rate increase of 4.52 percent should be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 of the date of the notice. (Ramos)

Staff Analysis: Staff recommends that interim service rates for Placid Lakes be designed to allow the utility the opportunity to generate annual operating revenues of \$716,030. Before removal of miscellaneous revenues, this would result in an increase of \$30,646 (4.47 percent), as discussed in Issue 2. To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. Staff's calculation of the appropriate percent increase to Placid Lakes' existing rates is shown in Table 3-1.

**Table 3-1
Percentage Service Rate Increase**

1. Total Adjusted Test Year Revenues	\$685,384
2. Less: Miscellaneous Revenues	\$7,817
3. Test Year Revenues from Service Rates	\$677,567
4. Revenue Increase	\$30,646
5. Percentage Service Rate Increase (Line 4/Line 3)	4.52%

Source: Staff's Recommended Revenue Requirement and utility's MFRs

Based on the above, staff recommends an interim rate increase of 4.52 percent should be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 of the date of the notice.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: A corporate undertaking of \$20,594 is acceptable, contingent upon receipt of the written guarantee of the parent company, Lake Placid Holding Company, (LPHC or Company). LPHC should be required to file a corporate undertaking on behalf of Placid Lakes Utilities, Inc. to guarantee any potential refund of revenues collected under interim conditions. Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Smith)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase should be \$30,646. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$20,594. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed LPHC's 2016, 2017, and 2018 financial statements to determine if the Company can support a corporate undertaking on behalf of its subsidiary. LPHC reported insufficient net income in 2016, 2017, and 2018, as well as insufficient return on equity in 2018. However, LPHC reported a sufficient working capital amount, current ratio, and Interest Coverage Ratio in 2016, 2017, and 2018. LPHC also reported adequate ownership equity and equity ratios over the three-year review period.

Based on staff's review of the financial reports submitted by LPHC, staff believes LPHC has adequate resources to support a corporate undertaking in the amount requested. Therefore, staff recommends that a corporate undertaking of \$20,594 is acceptable, contingent upon receipt of the written guarantee of LPHC.

The brief financial analysis above is only appropriate for deciding if LPHC can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

Issue 5: Should this docket be closed?

Recommendation: The docket should remain open pending the Commission's PAA decision on the utility's requested rate increase. (Simmons)

Staff Analysis: The docket should remain open pending the Commission's PAA decision on the utility's requested rate increase.

Placid Lakes Utilities, Inc.				Schedule No. 1	
Schedule of Water Rate Base				Docket No. 20190031-WU	
Test Year Ended 12/31/18					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,048,184	(\$23,010)	\$3,025,174	\$0	\$3,025,174
2 Land and Land Rights	4,355	0	4,355	0	4,355
3 Non-used and Useful Components	0	(51,586)	(51,586)	0	(51,586)
4 CWIP	4,325	(4,325)	0	0	0
5 Accumulated Depreciation	(1,848,667)	16,699	(1,831,968)	0	(1,831,968)
6 CIAC	(1,897,731)	9,458	(1,888,273)	0	(1,888,273)
7 Amortization of CIAC	1,243,797	(26,324)	1,217,473	0	1,217,473
10 Advances for Construction	(18,783)	(3,351)	(22,134)	0	(22,134)
11 Working Capital Allowance	<u>0</u>	<u>67,324</u>	<u>67,324</u>	<u>0</u>	<u>67,324</u>
12 Rate Base	<u>\$535,480</u>	<u>(\$15,115)</u>	<u>\$520,365</u>	<u>\$0</u>	<u>\$520,365</u>

Placid Lakes Utilities, Inc. Capital Structure-13-Month Average Test Year Ended 12/31/18						Schedule No. 2 Docket No. 20190031-WU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$466,426	(\$248,558)	\$217,868	(\$65,732)	\$152,136	29.24%	3.45%	1.01%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	261,465	171,115	432,580	(130,511)	302,069	58.05%	9.33%	5.42%
5 Customer Deposits	40,820	(3,370)	37,450	0	37,450	7.20%	2.00%	0.14%
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
7 Deferred Income Taxes	<u>31,656</u>	<u>(2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>5.52%</u>	0.00%	<u>0.00%</u>
8 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$196,243)</u>	<u>\$520,366</u>	<u>100.00%</u>		<u>6.57%</u>
Per Staff								
11 Long-term Debt	\$466,426	(\$248,558)	\$217,868	(\$65,732)	\$152,136	29.24%	3.45%	1.01%
12 Short-term Debt	0	\$0	0	0	0	0.00%	0.00%	0.00%
13 Preferred Stock	0	\$0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	261,465	\$171,115	432,580	(130,511)	302,069	58.05%	9.33%	5.42%
15 Customer Deposits	40,820	(\$3,370)	37,450	0	37,450	7.20%	2.00%	0.14%
16 Tax Credits-Zero Cost	0	\$0	0	0	0	0.00%	0.00%	0.00%
17 Deferred Income Taxes	<u>31,656</u>	<u>(\$2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>5.52%</u>	0.00%	<u>0.00%</u>
18 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$196,243)</u>	<u>\$520,366</u>	<u>100.00%</u>		<u>6.57%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>8.33%</u>	<u>10.33%</u>	
OVERALL RATE OF RETURN						<u>5.99%</u>	<u>7.15%</u>	

Placid Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/18						Schedule No. 3-A Docket No. 20190031-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$668,899</u>	<u>\$0</u>	<u>\$668,899</u>	<u>\$16,485</u>	<u>\$685,384</u>	<u>\$30,646</u> 4.47%	<u>\$716,030</u>
Operating Expenses							
2 Operation & Maintenance	\$540,289	(\$1,696)	\$538,593	\$0	\$538,593		\$538,593
3 Depreciation	54,649	(226)	54,423	0	54,423		54,423
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	80,091	(4,096)	75,995	0	75,995	1,379	77,374
6 Income Taxes	<u>5,890</u>	<u>4,266</u>	<u>10,156</u>	<u>(6,120)</u>	<u>4,036</u>	<u>7,418</u>	<u>11,453</u>
7 Operating Expenses	<u>680,919</u>	<u>(1,752)</u>	<u>679,167</u>	<u>(6,120)</u>	<u>673,047</u>	<u>8,797</u>	<u>681,843</u>
8 Operating Income	<u>(\$12,020)</u>	<u>\$1,752</u>	<u>(\$10,268)</u>	<u>\$22,605</u>	<u>\$12,337</u>	<u>\$21,849</u>	<u>\$34,187</u>
9 Rate Base	<u>\$535,480</u>		<u>\$520,365</u>		<u>\$520,365</u>		<u>\$520,365</u>
10 Rate of Return	<u>-2.24%</u>		<u>-1.97%</u>		<u>2.37%</u>		<u>6.57%</u>

Placid Lakes Utilities, Inc.		Schedule No. 3-B
Adjustments to Operating Income		Docket No. 20190031-WU
Test Year Ended 12/31/18		
Explanation		Water
Operating Revenues		
To reflect the appropriate amount of annualized revenues.		\$16,485

Placid Lakes Utilities, Inc.		Schedule No. 4	
Test Year Ended 12/31/18		Docket No. 20190031-WU	
Monthly Water Rates			
	Rates At Time of Filing	Staff Recommended Interim Rates	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$11.59	\$12.11	
1"	\$28.98	\$30.28	
1-1/2"	\$57.95	\$60.55	
2"	\$92.72	\$96.88	
3"	\$185.44	\$193.76	
4"	\$289.75	\$302.75	
6"	\$579.50	\$605.50	
Charge per 1,000 Gallons- Residential Service			
0-10,000 gallons	\$4.34	\$4.54	
10,001-20,000	\$6.52	\$6.81	
Over 20,000 gallons	\$8.68	\$9.07	
Charge per 1,000 gallons – General Service	\$4.64	\$4.85	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$24.61	\$25.73	
6,000 Gallons	\$37.63	\$39.35	
10,000 Gallons	\$54.99	\$57.51	