

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Highlands County by Placid Lakes Utilities,
Inc.

DOCKET NO. 20190031-WU
ORDER NO. PSC-2019-0286-PCO-WU
ISSUED: July 18, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

ORDER SUSPENDING PROPOSED FINAL RATES AND APPROVING INTERIM RATES

BY THE COMMISSION:

Background

Placid Lakes Utilities, Inc. (Placid Lakes or Utility) is a Class B utility providing water service to approximately 1,973 residential customers and 34 general service customers in Highlands County. The Utility's rates were last set in 2013 by Order No. PSC-13-0646-PAA-WU (Prior Order).¹ According to the Utility's 2018 Annual Report, the Utility had total operating revenues of \$672,308 and total operating expenses of \$540,289. On May 13, 2019, Placid Lakes filed its application for the rate increase at issue in this docket.

On June 12, 2019, the Utility was sent a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). The Utility corrected the deficiencies on June 21, 2019, making that date 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) and a final revenue increase of \$97,116 (14.52 percent).

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

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

Decision

Suspension of Rates

Section 367.081(6), F.S., provides that we 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) we have not acted upon the requested rate increase; or (2) our action is protested by a party other than the Utility.

We reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. We find that further investigation of this information, including on-site inspections, is needed. Commission staff initiated an audit of Placid Lakes' books and records, which is tentatively due on August 13, 2019. In addition, our staff sent a data request to the Utility on June 21, 2019, with the response due on July 22, 2019. Based on the foregoing, we find that Placid Lakes' proposed final water rates shall be suspended.

Interim Rates

Placid Lakes shall be authorized to collect annual revenues as indicated below:

	Annual Revenues			
	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$685,384	\$30,646	\$716,030	4.47%

On May 13, 2019, Placid Lakes filed its rate base, cost of capital, and operating statements to support its requested interim increase in 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, we 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 and the approved adjustments below, we find 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. We have reviewed Placid Lakes' interim request, as well as the Prior Order, in which this Commission last established rate base, and determined that an adjustment of \$16,845 should be made to test year revenues.

Accounting schedules are attached to illustrate our approved 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. Operating income is labeled as Schedule No. 3-A, with our adjustments shown on 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 Prior Order, this Commission found that Placid Lakes' water treatment plant and storage were 100 percent U&U and the water distribution system was 79.09 percent U&U. Based on review of the Prior Order and the Utility's filing in this case, we find that the water treatment plant and storage shall be considered 100 percent U&U and the water distribution system shall be considered 79.09 percent U&U. Therefore, no adjustments are necessary to the Utility's rate base as filed. Based on the above, we find that Placid Lakes' interim rate base shall be \$520,365.

Cost of Capital

Based on an analysis of the MFRs and review of the Prior Order, we find 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, no adjustments other than rate changes shall 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, we increased the interim test year operating revenues by \$16,485. Therefore, we find that the appropriate test year operating income, before any revenue increase, shall be \$12,337.

Revenue Requirement

Based on the above analysis, we find that an interim revenue requirement of \$716,030 shall be approved. This represents an interim increase in annual revenues of \$30,646 (4.47 percent). This increase allows the Utility the opportunity to recover its operating expenses and earn a 6.57 percent return on its rate base.

Appropriate Interim Water Rates

We find that interim service rates for Placid Lakes shall 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 above. To determine the appropriate increase to apply to the service rates, miscellaneous revenues shall be removed from the test year revenues. Calculation of the appropriate percent increase to Placid Lakes' existing rates is shown in Table 1.

Table 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: Approved Revenue Requirement and MFRs

Based on the above, we find that the interim rate increase of 4.52 percent for Placid Lakes shall be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4, shall 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 shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. In addition, the approved rates shall not be implemented until the required security has been filed, Commission staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

Appropriate Security to Guarantee Interim Increase

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 this Commission. As stated above, the total annual interim increase shall be \$30,646. In accordance with Rule 25-30.360, F.A.C., we 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 the approved 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. The 2016, 2017, and 2018 financial statements of the Utility's parent company, Lake Placid Holding Company (LPHC), were reviewed to determine if LPHC 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 our review of the financial reports submitted by LPHC, we find that LPHC has adequate resources to support a corporate undertaking in the amount requested. Therefore, we find 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 shall not be considered a finding regarding our position on other issues in this proceeding.

Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall 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 shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Placid Lakes Utilities, Inc.'s proposed final water rates are hereby suspended. It is further

ORDERED that Placid Lakes Utilities, Inc.'s requested interim revenue requirement and interim rate increase for water are hereby approved as set forth in the body of this Order. It is further

ORDERED that Placid Lakes Utilities, Inc. shall secure a corporate undertaking to guarantee any potential refund of revenues collected under interim conditions as set forth herein. It is further

ORDERED that the rates, as shown on Schedule No. 4, shall 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. It is further

ORDERED that Placid Lakes Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect this Commission's approved rates. It is further

ORDERED that the approved rates shall not be implemented until the required security has been filed, Commission staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that pursuant to Rule 25-30.360(6), F.A.C., Placid Lakes Utilities, Inc. shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. It is further

ORDERED that this docket shall remain open pending this Commission's final action on Placid Lakes Utilities, Inc.'s requested final water rates.

By ORDER of the Florida Public Service Commission this 18th day of July, 2019.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KBS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this Order may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall

be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code.

Judicial review of a ruling or order relating to the suspension of proposed final rates, which is preliminary, procedural or intermediate in nature, is available if review of the final action will not provide an adequate remedy. An order on interim rates is not final or reviewable until a final order is issued.² Review of any portion of this Order may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

² *Citizens of the State of Florida v. Mayo*, 316 So. 2d 262 (Fla. 1975).

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	Commission Adjust- ments	Commission 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.						Schedule No. 2		
Capital Structure-13-Month Average						Docket No. 20190031-WU		
Test Year Ended 12/31/18								
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 Commission								
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	Commission Adjust - ments	Commission 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. Adjustments to Operating Income Test Year Ended 12/31/18	Schedule No. 3-B Docket No. 20190031-WU
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	Commission Approved 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	