

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION CLERK

DATE: February 21, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (Maurey, Fletcher)
Division of Economics (Daniel, Hudson, Roberts)
Division of Engineering (Simpson)
Office of the General Counsel (Murphy)

ALM
PK J.W.D.
cm

RE: Docket No. 100471-SU – Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.

AGENDA: 03/05/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\100471.RCM.DOC

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

Case Background

S & L Utilities, Inc., (S & L or Utility) is a Class C Utility, currently providing wastewater service to approximately 76 customers in Marion County. The Utility is located in the Southwest Florida Water Management District (SWFWMD). In its 2011 Annual Report, S & L reported operating revenues of \$36,654 and operating expenses of \$40,219.

On December 22, 2010, S & L filed an application for a staff-assisted rate case and paid the appropriate filing fee. By Order No. PSC-11-0444-PAA-SU, the Commission approved Phase I and Phase II rates.¹ The Phase II rates were only to be implemented once the Utility had completed pro forma plant additions of \$55,997 for the replacement of two air blowers, videography of the lines in the collection system, and percolation pond cleaning. The Utility was given 12-months from the effective date of the consummating order to complete the plant additions. The 12-month period ended on November 1, 2012.

By letter dated, January 8, 2013, S & L indicated it had completed the videography of the lines and the percolation pond cleaning. However, it was unable to complete the pro forma plant addition related to the two air blowers. S & L is requesting an extension until November 1, 2013 to replace the two air blowers.

This recommendation addresses the extension requested by the Utility. It also addresses establishing initial customer deposits for the Utility. The Commission has the authority to consider this matter pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. PSC-11-0444-PAA-SU, in Docket No. 100471-SU, issued October 7, 2011, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.

Discussion of Issues

Issue 1: Should the Utility's request for an extension of time to complete the pro forma plant addition be approved?

Recommendation: Yes. The Utility's request for an extension of time to complete the final pro forma plant addition should be approved. S & L should have the final plant addition completed by November 1, 2013. (Simpson, Roberts)

Staff Analysis: As discussed in the case background, pursuant to Order No. PSC-11-0444-PAA-SU, S & L was given until November 1, 2012, to complete pro forma plant additions of \$55,997 for the percolation pond cleaning, videography of lines in the collection system, and replacement of air blowers that were beyond their service lives prior to implementing Phase II rates. Subsequent to November 1, 2012, staff informed the Utility that the 12-month period ended and that a status report regarding the completion of the pro forma plant additions was needed. During verbal and e-mail communication with S & L, the Utility indicated the pond cleaning and the videography of the lines in the collection system were completed. However, the Utility stated it had to hire an engineer for professional services related to this project. The total cost of \$44,914 exceeded the \$35,000 authorized in Order No. PSC-11-0444-PAA-SU. However, the Utility informed staff the videography of the lines in the collection system was provided through a grant offered by the Florida Rural Water Association (FRWA). The grant from the FRWA meant the Utility did not have to spend the \$5,000 authorized in the Order for the videography. Never-the-less, the Utility spent \$44,914 for the completion of these two projects, \$4,914 in excess of the amount authorized in the Order for the two projects combined.

The only outstanding item is the replacement of the air blowers, which is not a DEP requirement. However, it is considered a necessary item since the blowers are past their service lives. The Utility states that it does not have enough funds to replace the two air blowers at this time. However, with the requested extension, the Utility states that it can raise the funds necessary to complete this project. Therefore, staff recommends that the extension be granted until November 1, 2013, to allow S & L to complete the final pro forma plant addition.

Issue 2: Should the Commission revise the Phase II rates to reflect the pro forma plant additions completed by the Utility, and if so, what are the appropriate return on equity (ROE), overall rate of return, revenue requirement, and rates?

Recommendation: Yes. The Commission should revise the Phase II revenue requirement to reflect the pro forma plant additions completed to date. S & L's ROE should be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 7.31 percent. The revised Phase II revenue requirement is \$61,693, which equates to an increase of 2.94 percent over the Phase I revenue requirement. The Phase II increase should be applied as an across-the-board increase to the Phase I rates currently in effect. 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 10 days of the date of the notice. (Roberts, Simpson)

Staff Analysis: By Order No. PSC-11-0444-PAA-SU, the Commission approved a Phase II increase that was to be implemented once all pro forma items had been completed. S & L completed two of the three pro forma additions. As discussed in Issue 1, staff is recommending the Utility be granted an extension until November 1, 2013, to replace the two air blowers. The above-mentioned order indicates the Utility expected to spend \$55,997 on the three pro forma plant additions. S & L did not expend any of its own funds for the videography because it was funded by a grant from the FWRA. However, the Utility spent \$9,914 more than anticipated for the pond cleaning. In addition, the replacement of the two air blowers is discussed in Issue 3. The following table shows the Commission approved pro forma amounts and the Utility's revised costs for the pro forma plant additions.

Table 2-1

	<u>Pro forma Plant Items</u>	<u>Per Order No. PSC-11-0444-PAA-SU</u>	<u>Utility Revised Costs for Pro forma Projects</u>
1.	Replace two air blowers	\$15,997	\$16,654
2.	Percolation pond cleaning	35,000	44,914
3.	Videography of lines in the collection system	<u>5,000</u>	<u>0</u>
	Total	<u>\$55,997</u>	<u>\$61,568</u>

Staff believes the Utility has made a good faith effort to complete the pro forma plant additions in a timely manner. However, due to financial constraints, it was unable to replace the air blowers by November 1, 2012. Staff believes the Phase II revenue requirement should be revised to reflect the \$44,914 for the cleaning of the percolation pond. Staff has reviewed the invoices and the incurred cost appears reasonable. Given the intervening events, the

recommended Phase II rate increase is consistent with the findings in Order No. PSC-11-0444-PAA-SU.

S & L's ROE should be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 7.31 percent. The revised Phase II revenue requirement is \$61,693, which equates to an increase of 2.94 percent over the Phase I revenue requirement. The Phase II increase should be applied as an across-the-board increase to the Phase I rates currently in effect. Phase II rate base and adjustments are shown on Schedule Nos. 5-A and 5-B, respectively. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement and adjustments are shown on Schedule Nos. 7-A and 7-B, respectively. The resulting rates are shown on Schedule No. 8.

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 10 days of the date of the notice.

Issue 3: Should the Commission approve a Phase III rate increase for this Utility and if so, what is the appropriate ROE, overall rate of return, revenue requirement, and rates?

Recommendation: Yes. The Commission should approve Phase III rates to reflect the final pro forma plant additions. S & L's ROE should be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 7.11 percent. The Phase III revenue requirement is \$63,309, which equates to an increase of 2.62 percent over the Phase II revenue requirement. The Phase III increase should be applied as an across-the-board increase to the Phase II rates. The Utility should be allowed to implement the above rates once the pro forma addition for the two air blowers has been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. S & L should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma project, the Utility should immediately notify the Commission in writing. (Roberts, Simpson)

Staff Analysis: In Order No. PSC-11-0444-PAA-SU, the Commission approved a phased-in rate increase for the replacement of two air blowers. As discussed in Issue 2, the Utility has requested an extension until November 1, 2013, to complete this project. Staff is recommending in Issue 1 that S & L's request for an extension be approved.

Staff is recommending a Phase III revenue requirement which incorporates \$16,654 for the two air blowers. S & L's ROE should be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 7.11 percent. The Phase III revenue requirement is \$63,309, which equates to an increase of 2.62 percent over the Phase II revenue requirement. Staff believes deferring the portion of the rate increase associated with this final pro forma project previously authorized by the Commission is consistent with the findings in Order No. PSC-11-0444-PAA-SU.

The Phase III increase should be applied as an across-the-board increase to the Phase II rates. The Utility should be allowed to implement the above rates once the pro forma addition for the two air blowers has been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. S & L should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma project, the Utility should immediately notify the Commission in writing.

Issue 4: What is the appropriate initial customer deposit for this Utility?

Recommendation: An initial customer deposit of \$136 should be approved. The Utility should file a revised tariff sheet and proposed notice consistent with the Commission's vote. The initial customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheet after the customers have been notified. (Roberts)

Staff Analysis: Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. Rule 25-30.311(7), F.A.C. provides that new or additional customer deposits may be collected from existing customers based on an average monthly bill for a two-month period. S & L's existing tariff does not authorize the Utility to collect an initial customer deposit. Staff calculated an initial customer deposit amount that reflects an average bill for a two-month period based on staff's recommended rates in Issue No. 2. The Utility's existing and staff's recommended initial customer deposit amount are shown below:

WASTEWATER

RESIDENTIAL AND GENERAL SERVICE

<u>Existing Initial Customer Deposit</u>	<u>Recommended Initial Customer Deposit</u>
N/A	\$136.00

The Utility should file a revised tariff sheet and proposed notice consistent with the Commission's vote. The initial customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheet after if the customers have been notified. The customer notice may be combined with the notice for the Phase II rate increase.

Issue 5: Should this docket be closed?

Recommendation: No. 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. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase III rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: No. 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. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase III rates properly implemented. Once these actions are complete, this docket should be closed administratively.

S & L UTILITIES, INC.

TEST YEAR ENDED 12/31/10

SCHEDULE OF WASTEWATER RATE BASE (REVISED PHASE II)

DESCRIPTION	COMMISSION APPROVED PHASE I	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$158,411	\$44,914	\$203,325
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(137,151)	(703)	(137,854)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>6,222</u>	<u>0</u>	<u>6,222</u>
WASTEWATER RATE BASE	<u>\$27,482</u>	<u>\$44,211</u>	<u>\$71,693</u>

Docket No. 100471-SU
Date: February 21, 2013

S & L UTILITIES, INC.		SCHEDULE NO. 5-B
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU
ADJUSTMENTS TO RATE BASE (REVISED PHASE II)		
		<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
To reflect pro forma plant addition to clean pond to Account No. 380.		<u>\$44,914</u>
Total		
<u>ACCUMULATED DEPRECIATION</u>		
To reflect pro forma accumulated depreciation.		<u>(\$703)</u>

S & L UTILITIES, INC.
TEST YEAR ENDED 12/31/10
SCHEDULE OF CAPITAL STRUCTURE (REVISED PHASE II)

CAPITAL COMPONENT	COMMISSION APPROVED PHASE I	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	<u>26,323</u>	<u>0</u>	<u>26,323</u>					
TOTAL COMMON EQUITY	\$27,323	\$0	\$27,323	(\$6,139)	\$21,184	29.55%	11.16%	3.30%
LONG TERM DEBT								
3. LTD - SHAMROCK SECURITY SYSTEM	\$20,230	\$0	\$20,230	(\$4,545)	\$15,685	21.88%	5.00%	1.09%
4. LOAN FOR PRO FORMA PLANT	<u>0</u>	<u>44,914</u>	<u>44,914</u>	<u>(10,091)</u>	<u>34,823</u>	<u>48.57%</u>	<u>6.00%</u>	<u>2.91%</u>
TOTAL LONG TERM DEBT	\$20,230	\$44,914	\$65,144	(\$14,636)	\$50,508	70.45%	0.00%	
5. TOTAL	<u>\$47,553</u>	<u>\$44,914</u>	<u>\$92,467</u>	<u>(\$20,774)</u>	<u>\$71,693</u>	<u>100.00%</u>		<u>7.31%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>7.01%</u>	<u>7.60%</u>	

S & L UTILITIES, INC. TEST YEAR ENDED 12/31/10 SCHEDULE OF WASTEWATER OPERATING INCOME (REVISED PHASE II)		SCHEDULE NO. 7-A DOCKET NO. 100471-SU			
	COMMISSION APPROVED PHASE I RATES	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$59,932</u>	<u>\$0</u>	<u>\$59,932</u>	<u>\$1,761</u> 2.94%	<u>\$61,693</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$49,773	\$0	\$49,773	0	\$49,773
3. DEPRECIATION (NET)	1,594	1,418	3,012	0	3,012
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,588	0	3,588	79	3,668
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$54,955</u>	<u>\$1,418</u>	<u>\$56,373</u>	<u>\$79</u>	<u>\$56,453</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,977</u>		<u>\$3,559</u>		<u>\$5,241</u>
9. WASTEWATER RATE BASE	<u>\$27,482</u>		<u>\$71,693</u>		<u>\$71,693</u>
10. RATE OF RETURN	<u>10.00%</u>		<u>4.96%</u>		<u>7.31%</u>

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Date: February 21, 2013

S & L UTILITIES, INC.		SCHEDULE NO. 8
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU
MONTHLY WASTEWATER RATES (REVISED PHASE II RATES)		
	COMMISSION APPROVED PHASE I	STAFF RECOMMENDED RATE
<u>Residential Service</u>		
Flat Rate	\$65.39	\$67.31

S & L UTILITIES, INC.		SCHEDULE NO. 9-A	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
SCHEDULE OF WASTEWATER RATE BASE (PHASE III)			
DESCRIPTION	REVISED PHASE II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$203,325	\$16,654	\$219,979
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(137,854)	(261)	(138,114)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>6,222</u>	<u>0</u>	<u>6,222</u>
WASTEWATER RATE BASE	<u>\$71,693</u>	<u>\$16,393</u>	<u>\$88,086</u>

S & L UTILITIES, INC.
TEST YEAR ENDED 12/31/10
ADJUSTMENTS TO RATE BASE (PHASE III)

SCHEDULE NO. 9-B
DOCKET NO. 100471-SU

WASTEWATER

UTILITY PLANT IN SERVICE

To reflect pro forma plant addition for blowers to Account No. 380.

\$16,654

ACCUMULATED DEPRECIATION

To reflect pro forma accumulated depreciation.

(\$261)

S & L UTILITIES, INC.
 TEST YEAR ENDED 12/31/10
 SCHEDULE OF CAPITAL STRUCTURE (PHASE III)

CAPITAL COMPONENT	REVISED PHASE II	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	<u>26,323</u>	<u>0</u>	<u>26,323</u>					
TOTAL COMMON EQUITY	\$27,323	\$0	27,323	(\$5,267)	22,056	25.04%	11.16%	2.79%
LONG TERM DEBT								
3. LTD - SHAMROCK SECURITY SYSTEM	\$20,230	\$0	\$20,230	(\$3,900)	\$16,330	18.54%	5.00%	.93%
4. LOAN FOR PRO FORMA PLANT	<u>44,914</u>	<u>16,654</u>	<u>61,568</u>	<u>(11,868)</u>	<u>49,700</u>	<u>56.42%</u>	6.00%	3.39%
TOTAL LONG TERM DEBT	<u>\$65,144</u>	<u>\$16,654</u>	<u>\$81,798</u>	<u>(\$15,768)</u>	<u>\$66,030</u>	<u>74.96%</u>		
5. TOTAL	<u>\$92,467</u>	<u>\$16,654</u>	<u>\$109,121</u>	<u>(\$21,035)</u>	<u>\$88,086</u>	<u>100.00%</u>		<u>7.11%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>6.86%</u>	<u>7.36%</u>	

S & L UTILITIES, INC. TEST YEAR ENDED 12/31/10 SCHEDULE OF WASTEWATER OPERATING INCOME (PHASE III)			SCHEDULE NO. 11-A DOCKET NO. 100471-SU		
	REVISED PHASE II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$61,693</u>	<u>\$0</u>	<u>\$61,693</u>	<u>\$1,616</u> 2.62%	<u>\$63,309</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$49,773</u>	<u>\$0</u>	<u>\$49,773</u>	<u>0</u>	<u>\$49,773</u>
3. DEPRECIATION (NET)	<u>3,012</u>	<u>521</u>	<u>3,533</u>	<u>0</u>	<u>3,533</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>3,668</u>	<u>0</u>	<u>3,668</u>	<u>73</u>	<u>3,740</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$56,453</u>	<u>\$521</u>	<u>\$56,974</u>	<u>\$73</u>	<u>\$57,047</u>
8. OPERATING INCOME/(LOSS)	<u>\$5,241</u>		<u>\$4,719</u>		<u>\$6,263</u>
9. WASTEWATER RATE BASE	<u>\$71,693</u>		<u>\$88,086</u>		<u>\$88,086</u>
10. RATE OF RETURN	<u>7.31%</u>		<u>5.36%</u>		<u>7.11%</u>

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S & L UTILITIES, INC.
TEST YEAR ENDED 12/31/10
ADJUSTMENTS TO OPERATING INCOME (PHASE III)

SCHEDULE NO. 11-B
DOCKET NO. 100471-SU

DEPRECIATION EXPENSE

To reflect test year depreciation calculated per 25-30.140, F.A.C.

\$521

S & L UTILITIES, INC.		SCHEDULE NO. 12	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
MONTHLY WASTEWATER RATES (PHASE III)			
	REVISED PHASE II RATE	STAFF RECOMMENDED RATE	
<u>Residential Service</u>			
Flat Rate	\$67.31	\$69.07	