

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Polk County by S.V. Utilities, Ltd.

DOCKET NO. 130211-WS
ORDER NO. PSC-14-0195-PAA-WS
ISSUED: May 1, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING RATE INCREASE
AND
FINAL ORDER
ESTABLISHING TEMPORARY RATES AND RATE CASE EXPENSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that, *except as identified as final agency action*, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

S.V. Utilities, Ltd. (SV or Utility) is a Class C utility that has been in existence since 1981. The Utility provides service to approximately 705 residential, 4 general service, and 20 irrigation customers in Swiss Village Mobile Home Park, Hidden Cove East Mobile Home Park, and Hidden Cove West Mobile Home Park. SV is located in the Highlands Ridge water use caution area of the Southwest Florida Water Management District (SWFWMD) in Polk County. The Utility has been under the Commission's jurisdiction since May 14, 1996, when Polk County transferred jurisdiction to the Commission. SV, however, did not apply for its grandfather certificates until October 14, 1998. By Order No. PSC-99-1234-PAA-WS, issued June 22, 1999, we granted Certificate Nos. 605-W and 521-S to the Utility.¹

¹ See Order No. PSC-99-1234-PAA-WS, issued June 22, 1999, in Docket No. 981337-WS, In re: Application for Grandfather Certificates to Operate Water and Wastewater Utility in Polk County by S.V. Utilities, Ltd.

On July 16, 2007, SV applied for a staff assisted rate case (SARC), but voluntarily withdrew its application on August 1, 2008.² On August 5, 2013, the Utility filed an application for a SARC and paid the appropriate filing fee on September 17, 2013. Our staff selected the historical test year ended June 30, 2013.

We have jurisdiction pursuant to Section 367.0814, Florida Statutes (F.S.).

DECISION

I. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., the Commission, in water and wastewater rate cases, shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility's operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials as well as customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities.

SV's service area is located at Hidden Cove East Mobile Home Park, Hidden Cove West Mobile Home Park, and Swiss Village Mobile Home Park, in Winter Haven, Florida. The raw water source is ground water, which is obtained from two wells in the service area and is treated. The processing sequence for the water treatment system is to pump raw water from the aquifer, inject liquid chlorine, store in a tank, and then distribute. Wastewater service is provided via a wastewater treatment plant with three percolation ponds. Polk County Health Department (PCHD) regulates the potable water program.

In the last water Sanitary Survey Report, dated April 26, 2013, the only deficiency listed was related to the pressure relief valves, which were not properly screened. During our staff's visit to SV's water treatment plant (WTP), our staff noticed that the pressure relief valves were properly screened and the deficiency has been corrected. Therefore, we find the quality of the finished water product is satisfactory.

In the last wastewater DEP Compliance Evaluation Inspection, dated November 22, 2011, several deficiencies were listed. The main issue concerning the quality of the wastewater product was with the groundwater. The inspection report indicated that the maximum contaminant level for arsenic was exceeded in the second and third quarters of 2009, the fourth quarter of 2010, and the second quarter of 2011 for background well MW-1R. DEP requested an

² See Docket No. 070413-WS, In re: Application for Staff Assisted Rate Case in Polk County by S.V. Utilities, Ltd.

explanation for the exceedances and increasing trends of the arsenic levels. The Utility responded to DEP on December 1, 2011, and indicated that the property in which Swiss Village encompasses had various uses in the past, including growing citrus and cattle grazing. The Utility stated that it had no way of knowing what types of products were used in the past for these industries, but arsenic use was prevalent during these times to treat both cattle and citrus trees for pests and parasites. According to the Utility, the arsenic level has fallen since the last monitoring period, and the Utility will continue to monitor the trends closely. The Utility is providing quarterly groundwater reports to DEP.

Other deficiencies listed in DEP's November 22, 2011, Compliance Evaluation Inspection report included that the Domestic Wastewater Permit would expire on May 29, 2012, and the sign posted at the rapid infiltration basin (RIB or percolation pond) had deteriorated and was no longer legible. The Utility responded to DEP on December 1, 2011, stating that the permit application had been completed and DEP should be in receipt of the application by December 1, 2011. Our staff confirmed that DEP issued a Notice of Permit for the Utility on June 8, 2012. The permit is current and will expire on June 7, 2017. The Utility also reported to DEP on December 1, 2011, that the effluent disposal sign near the south RIB has been refurbished to original quality, which was verified by our staff during the site visit of the wastewater treatment plant (WWTP).

The Utility's Attempt to Address Customer Satisfaction.

Our staff reviewed the Commission's complaint records and did not locate any customer complaints recorded during the last three years. Our staff requested a copy of the Utility's in-house complaints during the test year and the Utility responded that it had not received any complaints.

On February 5, 2014, our staff conducted a customer meeting in Winter Have, Florida, during which customers were provided an opportunity to express specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints were investigated by our staff and were taken into consideration in reaching our determinations in this matter.

Seventy-six customers attended the customer meeting and six customers spoke regarding their concerns about the Utility. Several customers specifically inquired into the excessive amount of unaccounted for water (EUW) and stated their concerns that the Utility is losing water and that the customers will have to pay for it. The customers also stated their belief that providing the Utility a rate increase is improper and asked why the Utility should be permitted a rate increase with no change in service. Customers also discussed that their meters were not calibrated and they did not have a consumption record so they would not know how much water to conserve. One customer mentioned that the Utility should compare the cost of an automated billing program to manually sending bills out. The same customer also mentioned there was no contact information for the Utility on the bills. Our staff reviewed a current copy of the Utility's bill and found the bill did reflect the Utility's name and contact number. After the meeting, one customer mentioned to our staff there was a fire hydrant that needed to be replaced. Our staff

followed up with the Utility regarding the hydrant and the Utility stated that a new hydrant had just been ordered.

Forty-seven customer comments were received by the Commission regarding this rate case, of which, thirty-six were from Hidden Cove West and eleven were from Swiss Village. Most of the customers' comments involved opposition to a rate increase and concerns regarding the Utility's EUW, which is addressed in Section II below. Other comments involved concerns about the system needing repairs and improvements, poor management and operations, meters, and a preference to see consumption use before the Utility starts billing. Many customers also stated that most residents are seasonal residents, on fixed incomes, and that the residents will not water their lawns if there is a rate increase. Three customers mentioned the poor quality of water. Two of these customers stated that the water needed to taste better and the quality of the water has not been addressed.

We find the water provided by the Utility is meeting applicable DEP primary and secondary standards and most of the Utility's results are better than DEP's acceptable standards. One customer specifically mentioned that the residents frequently have to boil water due to broken pipes. Our staff verified with PCHD that SV issued a boiled water notice in September 2012 and one in February 2013. In September 2012, a notice was issued to repair a 6-inch main break. The notice issued in February 2013, was to repair a main leak.

Conclusion

We find that the quality of the finished water and wastewater products are satisfactory since the Utility is current in meeting the quality standards for all required chemical analyses and the products provided by the Utility are meeting applicable primary and secondary standards as prescribed in the rules of the DEP. In addition, we find that the conditions of the water and wastewater treatment facilities are satisfactory since the Utility corrected all deficiencies reported by DEP. In addition, it appears the Utility has attempted to address the customers' concerns. Therefore, we find the overall quality of service for the SV system in Polk County is satisfactory.

II. Used and Useful (U&U) Water Treatment and Distribution

SV has one WTP with two 8-inch wells operating at depths of 530 feet for Well 1 and 547 feet for Well 2. The wells have a total capacity of 600 gallons per minute (gpm). Well 1 is equipped with a 30 horsepower (hp) vertical turbine pump and Well 2 is equipped with a 40 hp vertical turbine pump. The raw water is treated with liquid chlorine, which is injected prior to entry into the two 8,000-gallon hydropneumatic tanks. The treated water from the tanks is then pumped into the water distribution system.

The distribution system is a composite network consisting of approximately 17,075 linear feet of 6-inch PVC pipe, 950 linear feet of 4-inch PVC pipe, 15,330 linear feet of 2-inch PVC pipe, and 165 linear feet of 1-inch PVC pipe. The distribution system supports forty-nine fire hydrants.

The WWTP capacity is permitted by DEP at 0.141 million gallons per day (MGD) based on the Three Month Average Daily Flow (3MADF). The plant is a Type II, extended aeration domestic wastewater treatment plant that consists of one surge/aeration basin of 42,500 gallons, three aeration basins of 120,348 total gallons, two clarifiers of 35,500 total gallons with a total of 520 square feet of surface area, two chlorine contact chambers of 7,600 total gallons and two digesters of 14,500 total gallons. This plant is operated to provide secondary treatment with liquid chlorine basic disinfection. The wastewater system includes three percolation ponds.

The collection system is made up of approximately 2,600 linear feet of 4-inch PVC pipe, 9,700 linear feet of 6-inch PVC pipe, and 16,285 linear feet of 8-inch PVC pipe. There are fifty-four 4-inch concrete manholes and four lift stations. The four lift stations transfer the influent by force mains to the wastewater treatment plant.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of ten percent (10%) of the amount produced. In establishing the Rule, we recognized that some uses of water are readily measurable and others are not. Therefore, we allows ten percent of unaccounted water for the uses of water that are not metered, which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft.³ The Rule provides that, in order to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The Utility's records indicated unaccounted for water of thirty-two percent (32%), which would mean there is EUW of twenty-two percent (22%). The Utility produced 72,399,000 gallons of water, so twenty-two percent of the water produced would be 15,624,100 gallons or 30 gpm.

Our staff asked the Utility to investigate the EUW issue. The Utility found that there were two pool leaks during the test year. One pool leak was at the Hidden Cove West clubhouse and the other one was at the Swiss Village clubhouse. The Utility also found a 2-inch irrigation meter in Hidden Cove West that was broken during the test year, and has ordered a new meter.

³ See Order No. PSC-93-0455-NOR-WS, p. 101 and 102, issued March 24, 1993, in Docket no. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

To further its investigation of the EUW, the Utility requested a meeting with the Florida Rural Water Association to begin leak detection on the system. We believe that the water used to fill the pools should have been metered from the clubhouses. Our staff found the irrigation meter was not working for the fourth quarter of 2012 through the second quarter of 2013. The total estimated loss of water from the irrigation meter not working would only account for 77,400 gallons of the 15.6 million gallons total gallons of EUW.

At our Agenda Conference on April 10, 2014, the Utility advised the Commission that it would be willing to enter into an agreement with the Florida Rural Water Association to perform a detailed water audit of the Utility within the next 120 days. Based on this assurance, we find that that a twenty-two percent (22%) adjustment to O&M expenses should be made.

Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we will consider I&I. In addition, adjustments to operating expenses such as chemical and electrical costs are considered necessary, if excessive. The Utility's records indicated that there was no excessive I&I for the test year. Therefore, we find that no adjustment should be made for excess I&I.

Used and Useful (U&U)

Pursuant to Rule 25-30.4325, F.A.C., the U&U percentage of the WTP was calculated by taking the single maximum day in the test year less the EUW times two, then adding the fire flow allowance plus the growth allowance and dividing that whole amount by the firm reliable capacity ($[(2 \times (\text{single maximum day} - \text{EUW})) + \text{fire flow} + \text{growth allowance}] / \text{firm reliable capacity}$). The Utility has two wells with a total capacity of 600 gpm. If a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's firm reliable capacity. By taking one of the wells (300 gpm) out of service, the Utility reflected a firm reliable capacity of 300 gpm. The single maximum day in the test year was 379,000 gallons (263 gpm), which occurred on August 19, 2012. This does not appear to have been caused by a line break or other unusual occurrence on that day. The Utility's records indicated unaccounted for water of thirty-two percent, which would mean there is a EUW of twenty-two percent. The peak demand should be reduced by 30 gpm, which is twenty-two percent of the water produced, to reflect the EUW (single maximum day - EUW). The growth allowance is zero gpm. The fire flow allowance is 500 gpm per Rule 25-30.4325, F.A.C. The result, $[(2 \times (263 - 30)) + 500 + 0] / 300 = 322 \%$, is greater than 100 percent U&U. Since this Utility has not had a prior rate case for this Utility, we have not previously established U&U for this Utility. Based on the above information, we find that the WTP should be 100 percent U&U.

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the WWTP was calculated by taking the Three Month Average Daily Flow (3MADF) plus a growth allowance minus the excess I&I and then dividing the sum by the permitted capacity of the plant. The Rule also contains a provision for consideration of other factors, such as whether the service area is built out. The Utility's test year 3MADF was 0.121 MGD. There has been no growth in the past five years; therefore, the growth allowance is 0 MGD. In addition, the excess I&I is calculated to be zero percent. The WWTP's permitted capacity is 0.141 MGD per 3MADF. The calculation $[(0.121-0+0)/0.141]$ results in an eighty-six percent (86%) U&U. Since this Utility has not had a prior rate case for this Utility, we have not previously established U&U for this Utility. SV began serving customers in 1981. Our adjusted test year plant-in-service for wastewater is \$494,034. Total accumulated depreciation is \$408,238, 82.6 percent. With equipment replacements over the years, the wastewater treatment plant-in-service is significantly, but not fully, depreciated. The system has been in operation for over thirty years with no customer growth during the previous five years to the filing of this SARC; therefore, the wastewater treatment plant should be considered 100 percent U&U because the system is built-out, which is consistent with Rule 25-30.432, F.A.C.

Upon review of the service territory, we believe the current mains are providing service for the existing customers only. For the SV service area, there are 708 lots, no vacant lots, and no further phases to be built in the developments. If the service territory the system is designed to serve is deemed built out and there is no potential for expansion of the service territory, we believe that the U&U percentage for water distribution and wastewater collection systems be considered 100 percent. Therefore, we find that the water distribution and wastewater collection system be considered 100 percent U&U.

Conclusion

Based on the discussion outlined above, we find SV's WTP, water distribution, WWTP, and wastewater collection system to be 100 percent U&U. In addition, we find that a twenty-two percent (22%) adjustment to O&M Expenses should be made for EUW and no adjustment for excess I&I.

III. Test Year Rate Base

The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC and working capital. The selected the test year for this rate case ended June 30, 2013. A summary of each component of rate base and the recommended adjustments follows below:

Utility Plant in Service (UPIS):

The Utility recorded UPIS of \$556,407 for water and \$1,394,937 for wastewater. Our adjustments to UPIS are identified in Table 3-1 below.

Table 3-1
Rate Base Adjustments

UTILITY PLANT IN SERVICE	WATER	WASTEWATER
1. To reflect original cost study as of 12/31/2006 (AF 1)	(\$110,456)	(\$910,048)
2. To reflect staff audit adjustments from report in Dkt. 070413-WS (AF 1)	5,426	4,542
3. To reflect plant additions and retirements (AF 2)	(41,376)	2,528
4. To reflect simple average	(201)	(1,128)
5. To capitalize meter lids	733	0
6. To capitalize pump	0	1,637
7. To capitalize portable controller	0	1,566
8. To capitalize billing software	1,875	1,875
Total	(\$143,999)	(\$899,028)

In a letter dated March 5, 2014, OPC noted invoices in materials and supplies expense that should be capitalized. We reviewed these items and agree with OPC on this issue. The adjustments above include capitalization of meter lids, a pump, and a portable controller.

Our net adjustments to UPIS are decreases of \$143,999 and \$899,028 for water and wastewater, respectively. Therefore, we find the UPIS balance is \$412,408 (\$556,407-\$143,999) for water and \$495,909 (\$1,394,937 - \$899,028) for wastewater.

Land & Land Rights:

The Utility recorded a test year land value of \$7,695 for water and \$33,087 for wastewater. We reduced these balances by \$5,074 and \$5,152 for water and wastewater, respectively, to reflect the original cost of utility land. The appropriate land balances are \$2,621 for water and \$27,935 for wastewater.

Non-Used and Useful Plant:

As discussed in Section II above, SV's water treatment plant, distribution system, wastewater treatment plant, and collection system should be considered 100 percent used and useful. Therefore, we find no adjustments are necessary.

Contributions In Aid of Construction (CIAC):

SV did not record CIAC on its books. The service area consists of lots rented by the affiliated developer. Therefore, we find no adjustment for CIAC.

Accumulated Depreciation:

SV recorded a balance for accumulated depreciation of \$463,450 and \$1,272,981 for water and wastewater, respectively. The accumulated depreciation was recalculated using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions, capitalization adjustments, and retirements along with the simple average. As a result, we believe that the balances should be decreased by \$160,033 for water and by \$864,431 for wastewater. Therefore, we find an accumulated depreciation balance of \$303,418 for water and \$408,551 for wastewater.

Accumulated Amortization of CIAC:

As SV does not have any CIAC, we find there is no accumulated amortization of CIAC.

Working Capital Allowance:

SV did not record a working capital balance for water or wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we find a working capital allowance of \$10,191 for water (based on O&M expense of \$81,530/8), and \$16,697 for wastewater (based on O&M expense of \$133,573/8).

Rate Base Summary:

Based on the foregoing, the appropriate average test year rate base is \$121,803 for water and \$131,990 for wastewater. Rate base is shown on Schedule No. 1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

IV. Return on Equity and Overall Rate of Return

The Utility's capital structure consists of an intercompany payable of \$360,767. Consistent with our prior practice, the payable was treated as common equity.⁴

In its May 5, 2014, letter, OPC cites Commission orders that support the use of a parent company capital structure. In this case, the utility is owned by S.V. Utilities, Ltd., a partnership. The utility serves rental mobile home lots that are part of different partnerships. SV's managing partner is Century Properties-MHP, LLC, which is the managing partner for several related mobile home parks and utilities. Century Properties-MHP has a very small holding in each

⁴ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

partnership. For each one, the majority ownership varies from partnership to partnership. Unlike the situations OPC cites in its letter, we do not find a clear parent/subsidiary capital structure exists for SV.

Our auditor was able to identify a capital structure specific for SV. As noted above, we believe treating the payable as common equity is consistent with prior Commission practice. With this adjustment, the Utility has no long-term debt. The Utility does not have customer deposits. The appropriate ROE is 8.74 percent using our approved leverage formula currently in effect.⁵ The Utility's capital structure has been reconciled with the recommended rate base. We, therefore, find a ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

V. Test Year Revenues for Water and Wastewater Systems

SV recorded total test year revenues of \$145,547, including water service revenues of \$74,417 and wastewater service revenues of \$71,130. The Utility's current tariff reflects a monthly base facility charge (BFC) of \$15.71 for both water and wastewater service, which includes an allotment of 8,000 gallons per month. The Utility bills the BFC monthly and allocates it equally between water and wastewater service. Customer usage is billed quarterly and allocated equally between both services.

During the test year, the Utility had several billing errors. The Utility billed irrigation customers the entire BFC rather than the portion allocated for water. The general service and irrigation customers were billed one BFC per quarter rather than a BFC for each month of the quarter. Finally, the Utility recorded service revenues for general service usage to water rather than allocating it equally between water and wastewater.

Our staff corrected the billing errors, adjusted test year billing determinants, and applied the Utility's rates in effect during the test year to test year billing determinants. Based on this analysis, we believe the test year service revenues should be decreased by \$55 for water and increased by \$1,273 for wastewater. Based on the above, the appropriate test year revenues for SV's water and wastewater systems are \$74,362 and \$72,403, respectively.

⁵ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 130006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

VI. Operating Expenses

SV recorded operating expense of \$58,612 for water and \$134,143 for wastewater for the test year ended June 30, 2013. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. We made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701)

SV recorded \$852 for water and \$33,173 for wastewater salaries in these accounts. However, the company had not allocated the cost of employees from the managing partner. Therefore, the water salaries were increased by \$28,560 and wastewater salaries were increased by \$11,273 to cover management and operations activities done for the Utility by its managing partner employees.

Since the managing partner manages other water and wastewater utilities, these salaries were allocated on the basis of lots. OPC expressed concerns that time is not being allocated to other affiliated businesses. However, allocating the costs based on lots properly allocates salaries to all businesses and is reasonable. We did not include a management fee, as the fee was unsupported and the salary allocation covers management activities. Therefore, the amounts for salaries are \$29,412 for water and \$44,446 for wastewater.

Purchased Power (615/715)

SV recorded \$10,888 for purchased power expense for water and \$19,166 for wastewater. We have reduced these amounts by \$32 and \$133 for water and wastewater, respectively, because the utility had included late fees. In addition, we further reduced the amount for water by \$2,395 due to EUW (22%). Therefore, the purchased power expense is \$8,461 for water and \$19,033 for wastewater.

Chemicals (618/718)

For chemicals expense, SV recorded \$2,490 for water and \$6,296 for wastewater. For water, we removed \$548 from this amount due to EUW. For wastewater, we removed \$227 from this amount because of lack of invoice support and, removed \$336 that was outside the test year, based on OPC's letter. Therefore, the chemicals expense is \$1,942 for water and \$5,733 for wastewater.

Materials and Supplies (620/720)

For materials and supplies, the Utility recorded \$7,519 and \$13,447 for water and wastewater, respectively. For water, we reduced the amount by \$2,840, which removed \$655 in unsupported transactions, reclassified \$1,602 to water meters, and included \$150 in appropriate expense that had not been booked. OPC's May 5, 2014, letter noted an invoice for meter lids for \$733. We removed this amount from materials and supplies expense and capitalized the amount as plant.

For wastewater, we reduced the amount by \$8,057 by removing \$85 in unsupported transactions and reclassifying \$2,988 to plant lift-stations and \$1,781 to miscellaneous water plant. We further capitalized amounts for pump motors and for a portable controller/sampler totaling \$3,203, as noted in OPC's letter. Therefore, the amounts for materials and supplies for water and wastewater are \$4,679 and \$5,390, respectively.

Contractual Services - Billing (630/730)

For water and wastewater, the beginning balances for contractual services - billing was zero. The total cost for the change to monthly billing provided by SV was \$27,892. We reduced this amount to \$19,515 to allow for existing quarterly billing expenses. Of this amount, \$3,750 was related to new billing software, which we have capitalized. We treated the remainder as an expense and divided it equally between water and wastewater. Therefore, the amounts for incremental monthly billing expense are \$7,883 for water and \$7,883 for wastewater.

Contractual Services - Professional (631/731)

For water, SV recorded \$13,252 for contractual services - professional. As noted in OPC's May 5, 2014, letter, \$600 of expense that was outside the test year was removed. For wastewater, SV recorded \$6,588 for contractual services - professional. This amount was reduced by \$455 for unsupported transactions and \$280 was removed that was associated with another utility system. Finally, agreeing with OPC on this issue, we amortized permitting costs of \$884 over five years, reducing this account by \$707.

For water and wastewater, \$2,925 was allocated as overhead for administrative and accounting salaries (bookkeeping, receptionist, regulatory accounting). With these adjustments, the amounts for contractual services - professional for water and wastewater are \$15,577 and \$8,071, respectively.

Contractual Services - Testing (635/735)

The SV recorded \$1,278 for water and \$8,653 for wastewater for testing expense. For water, the amount was decreased by \$363 to reflect copper and lead testing every three years. For wastewater, the amount was increased by \$200 to annualize the cost of quarterly monitoring of groundwater at the wastewater treatment plant. In addition, the account was reduced by \$386 for unsupported expenses. \$141 water and \$120 wastewater was removed for out of period expenses as noted in OPC's May 5, 2014, letter. Therefore, we find contractual services - testing expense of \$774 for water and \$8,347 for wastewater.

Contractual Services – Other (736)

SV recorded \$5,270 for wastewater. This amount was reduced by \$110 for unsupported transactions. Therefore, the amount for contractual services – other expense is \$5,160 for wastewater.

Rents (640/740)

SV did not record any rent expense for water and wastewater. The Utility requested that we consider the cost of leasing a mini-excavator. SV noted that this would be safer for employees and reduce overtime. The annual lease expense is \$6,984. We allocated, on an annual basis, twenty-five percent (25%) of the lease expense to SV and split this amount evenly, \$873 for water and for wastewater. This expense allowance was reduced to reflect savings based on leasing the mini-excavator, \$263 each for water and wastewater. We believe it is appropriate for SV to incur this expense. In addition, we allocated office rent of \$1,562 for water and \$1,562 for wastewater. This represents SV's share of rent associated with managing partner employees. Therefore, the appropriate rent expenses are \$2,172 for water and \$2,172 for wastewater.

Transportation Expense (650/750)

For water and wastewater transportation expense, SV recorded \$3,187 and \$3,370, respectively. Unsupported expenses of \$116 for water and \$201 for wastewater were removed. Out-of-period expenses of \$289 for water and \$126 for wastewater were also removed. Therefore, the resulting transportation expense allowances are \$2,782 for water and \$3,043 for wastewater.

Insurance Expense (655/755)

For insurance expense, SV recorded \$789 for water and \$2,539 for wastewater. We increased the water allowance by \$1,732 and decreased the wastewater allowance by \$885 to reflect the current general liability premium. Therefore, the resulting balances are \$2,521 and \$1,654 for water and wastewater, respectively.

Regulatory Commission Expense (665/765)

SV recorded zero expense for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For the postage, printing, and envelopes of these notices, staff estimated \$788 for the customer meeting and \$561 for the final rates notice. Specifically, we allocated the \$1,000 rate case filing fee for the water utility to water expenses and the \$500 filing fee for wastewater to wastewater expenses. In addition we have allowed a consulting fee of \$10,183. The total rate case expense including postage, notices, envelopes, consulting fee, and filing fee is \$13,032. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Therefore, we find a regulatory commission expense of \$1,692 for water and \$1,567 for wastewater.

Operation and Maintenance Expenses (O&M) Summary

Total adjustments to O&M expense result in an increase of \$37,639 for water and \$13,996 for wastewater. We find that O&M expense is \$81,530 for water and \$133,573 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC)

The Utility recorded depreciation expense of \$11,374 for water and \$11,369 for wastewater during the test year. Depreciation expense was calculated using the prescribed rates set forth in Rule 25-30.140, F.A.C., and we determine depreciation expense should be reduced by \$2,811 for water and \$1,539 for wastewater. Therefore, the appropriate depreciation expenses are \$8,564 for water and \$9,831 for wastewater.

Taxes Other Than Income (TOTI)

The Utility recorded \$3,347 for water and \$3,197 for wastewater for TOTI. The amount for wastewater was increased by \$47 to reflect the correct amount for regulatory assessment fees. Therefore, we find TOTI of \$4,748 for water and \$7,286 for wastewater.

Operating Expenses Summary

The application of the adjustments to SV's adjusted test year operating expenses results in operating expenses of \$94,841 for water and \$150,690 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

VII. Revenue Requirement

SV shall be allowed an annual increase of \$31,125 for water (41.86 percent) and \$89,822 for wastewater (124.06 percent). This will allow the Utility the opportunity to recover its expenses and an 8.74 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

Water Revenue Requirement	
Adjusted Rate Base	\$121,803
Rate of Return	x .0874
Return on Rate Base	\$ 10,646
Adjusted O&M expense	81,530
Depreciation expense	8,564
Amortization	0
Taxes Other Than Income	4,748
Income Taxes	0
Revenue Requirement	\$105,487
Less Test Year Revenues	74,362
Annual Increase	\$31,125
Percent Increase/(Decrease)	41.86%

Table 7-2

Wastewater Revenue Requirement	
Adjusted Rate Base	\$131,990
Rate of Return	x .0874
Return on Rate Base	\$ 11,536
Adjusted O&M expense	133,573
Depreciation expense	9,831
Amortization	0
Taxes Other Than Income	7,286
Income Taxes	0
Revenue Requirement	\$162,225
Less Test Year Revenues	72,403
Annual Increase	\$89,822
Percent Increase/(Decrease)	124.06%

VIII. Rate Structure and Rates for Water and Wastewater Systems

The SV water system is located in Polk County within the SWFWMD. The Utility provides service to 705 residential, 4 general service, and 20 irrigation customers. The Utility's customer base is seasonal; however, because the customers irrigate year round, the billing data indicates that only approximately 7.64 percent of the residential customer bills during the test year had zero gallons. According to the Utility, while seasonal customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 5,608 gallons per month during the test year. The average water demand, excluding zero gallon bills, was 6,072 gallons per month.

SV's rates and rate structure have been in effect since the Utility was granted grandfather certificates in 1999, following Polk County turning over jurisdiction of privately owned water and wastewater utilities to the Commission. Currently, the Utility's rate structure consists of a single monthly BFC of \$15.71 for water and wastewater service, which includes an allotment of 8,000 gallons per month. Water usage above the 8,000 gallon monthly allotment is billed at \$1.31 for 8,001 to 10,000 gallons and \$2.09 for usage above 10,000 gallons. As previously

discussed, the BFC is billed monthly, but usage in excess of the 8,000 gallon monthly allotment is billed quarterly. The approved rate for irrigation service is a monthly BFC of \$7.86, which includes an allotment of 8,000 gallons and a usage charge of \$.65 per 1,000 gallons.

The current rate structure is not considered conservation oriented because the 8,000 gallon allotment does not encourage conservation and billing on a quarterly basis for usage does not give customers a timely price signal. In fact, many of the customers expressed their concern that they are not aware of their past consumption history. The Utility did not provide the customers a quarterly bill if their consumption was within the allotment of 24,000 gallons per quarter. Therefore, in order to promote conservation, the allotment should be eliminated and the Utility should bill on a monthly basis.

Water Rates

An analysis of the Utility's billing data was performed in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

We believe that forty percent (40%) of the water revenues should be generated from the BFC, which will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. Therefore, a non-discretionary usage threshold of 5,000 gallons per month is appropriate in this case. In addition, we find that a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers is appropriate. General service and irrigation customers shall be billed a BFC and uniform gallonage charge. Our approved rate structure and resulting water rates are shown on Schedule No. 4-A.

Based on the customer billing data provided by the Utility, approximately 32 percent of total residential consumption is discretionary and, therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 41.86 percent, the residential discretionary consumption can be expected to decline by 5,848,000 gallons resulting in anticipated average residential demand of 4,916 gallons per month. We find a 12.3 percent reduction in total residential consumption and corresponding reductions of \$998 for purchased power, \$229 for chemicals, and \$58 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$104,203.

Wastewater Rates

An analysis of the Utility's billing data was performed in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, our practice is to allocate at least fifty percent (50%) of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Therefore, we order a BFC allocation of fifty percent (50%). In addition, based on the expected reduction in water demand described above, we find that a repression adjustment must also be made for wastewater.⁶ Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Therefore, we believe that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, we find that discretionary usage be reduced by 3,730,471 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. We, therefore, find an 8.92 percent reduction in total residential consumption and corresponding reductions of \$1,697 for purchased power, \$511 for chemicals, \$1,786 for sludge removal, and \$180 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$158,051.

Currently, the Utility does not have a gallonage cap for residential wastewater customers. The cap creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately eighty percent (80%) of the water demand. Based on the Utility's billing analysis, the 8,000 gallon level is where approximately 80 percent of the water demand is captured. Therefore, we find that the gallonage cap for residential wastewater customers shall be set at 8,000 gallons. The gallonage charge for general service customers should be 1.2 times greater than the residential gallonage charge, which is consistent with prior Commission practice. The approved rate design for the wastewater system is shown on Schedule No. 4-B.

Conclusion

Based on the foregoing, we find that forty percent (40%) of the water revenues be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional block for the non-discretionary usage threshold of 5,000 gallons is approved for residential water customers. A 12.3 percent reduction in total residential consumption and

⁶ See Order Nos. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated and Order No. PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

corresponding reductions of \$998 for purchased power, \$229 for chemicals, and \$58 for RAFs shall be made to reflect the anticipated repression. General service and irrigation customers shall be billed a BFC based on meter size and a uniform gallonage charge.

We find that fifty percent (50%) of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. An 8.92 percent reduction in total residential consumption and corresponding reductions of \$1,697 for purchased power, \$511 for chemicals, \$1,786 for sludge removal, and \$180 for RAFs shall be made to reflect the anticipated repression. General service wastewater customers shall be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed in the Section I, Quality of Service, many customers expressed concern about their previous consumption history. The Utility has indicated that the current billing system makes it difficult to provide the last twelve month's data on a mass basis in a timely manner. Utility, however, has offered to provide a customer with the past twelve month's billing history upon written request of the customer. In order to make customers aware of their usage patterns, the Utility shall provide its customers with their most recent three months usage along with the customer notice of the Commission-approved rates.

The approved rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Along with the customer notice, the Utility shall provide customers with their most recent three months usage. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

IX. Rate Reduction for Amortized Rate Case Expense (Final Agency Action)

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions are \$1,791 for water and \$1,659 for wastewater.

The water and wastewater rates are reduced as shown on Schedule No. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and 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. SV shall 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. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

X. Temporary Rates

(Final Agency Action)

This Order grants SV an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party, other than the Utility, we find that the rates set out herein are approved as temporary rates. SV shall file revised tariff sheets and a proposed customer notice to reflect the 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 temporary rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. In addition, the rates collected by the Utility should be subject to the refund provisions discussed below.

SV shall be authorized to collect the temporary rates upon approval by Commission staff of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$80,658. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If SV chooses a bond as security, the bond shall contain wording to the effect that, it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If SV chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;

- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to SV;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account, and pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by SV, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

SV shall maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

XI. Adjusting Books to Reflect Commission's Decision

To ensure that the Utility adjusts its books in accordance with our decision, SV shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by S.V. Utilities. Ltd. is satisfactory. It is further,

ORDERED that S.V. Utilities Water Treatment Plant, water distribution system, Wastewater Treatment Plant, and wastewater collection system are 100 percent used and useful. It is further,

ORDERED that a 22 percent adjustment to Operating & Maintenance Expenses is made for Excessive Unaccounted for Water and no adjustment is made for excess Infiltration and Inflow. In addition, S.V. Utilities, Ltd. has willingly agreed to have a water audit performed by the Florida Rural Water Association in order to address its Excessive Unaccounted for Water. It is further,

ORDERED that the average test year rate base for the S.V. Utilities, Ltd. is \$121,803 for the water system and \$131,990 for the wastewater system. It is further,

ORDERED that the return on equity for S.V. Utilities, Ltd. is 8.74 percent, with a range of 7.74 percent to 9.74 percent. The overall rate of return is 8.74 percent. It is further,

ORDERED that the test year revenues for S.V. Utilities, Ltd. are \$74,362 for the water system and \$72,403 for the wastewater system. It is further,

ORDERED that the operating expenses for S.V. Utilities, Ltd. are \$94,841 for the water system and \$150,690 for the wastewater system. It is further,

ORDERED that the revenue requirement for the S.V. Utilities, Ltd. water system is \$105,487, resulting in an annual increase of \$31,125 (41.86 percent), and for the wastewater system is \$162,225, resulting in an annual increase of \$89,822 (124.06 percent). It is further,

ORDERED that S.V. Utilities, Ltd. shall bill customers monthly for water and wastewater services. It is further,

ORDERED that a repression adjustment of 12.3 percent for water system and 8.92 percent for wastewater system. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, the approved monthly water and waste water rates are shown on Schedule No. 4-A and 4-B. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, water and wastewater rates shall be reduced as shown on Schedule No. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. (Final Agency Action). It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, rates approved for S.V. Utilities, Ltd. are also approved on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than S.V. Utilities, Ltd. (Final Agency Action). It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, S.V. Utilities, Ltd. shall file revised water and wastewater tariffs sheets and a proposed customer notice to reflect the approved water and wastewater rates. It is further,

ORDERED that, pursuant to Rule 25-30.475(1), the approved rates shall be effective for services rendered on, or after, the stamped approval date on the tariff sheets. It is further,

ORDERED that the approved water and wastewater rates shall not be implemented until S.V. Utilities, Ltd.'s appropriate security for the potential refund and proposed customer notice have been approved by Commission staff and the notice has been received by the customers. It is further,

ORDERED that S.V. Utilities, Ltd. shall provide its customers with each customer's most recent three month usage with the customer notice. It is further,

ORDERED that S.V. Utilities, Ltd. shall provide proof of the date notice was provided to its customers within 10 days of the date the notice was issued. It is further,

ORDERED that S.V. Utilities, Ltd. shall adjust its books in accordance with this Order and shall provide proof within 90 days of the final order in this Docket, that the adjustments for all applicable National Association of Regulatory Commissioners Uniform System of Accounts primary accounts have been made. It is further,

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that, this Docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by S.V. Utilities, Ltd. and approved by our staff. Once these actions are complete, this Docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 1st day of May, 2014.



CARLOTTA S. STAUFFER

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.

KFC

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.

Except as identified in the body of this Order at sections IX and X, and reflected in corresponding ordering paragraphs, our action in this matter is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 22, 2014.

If such a petition is filed, 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. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter, identified in Sections IX and X and reflected in the corresponding ordering paragraphs, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, 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 by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

S.V. UTILITIES, LTD.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130211-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$556,407	(\$143,999)	\$412,408
2. LAND & LAND RIGHTS	7,695	(5,074)	2,621
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(463,450)	160,033	(303,418)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,191</u>	<u>10,191</u>
8. WATER RATE BASE	<u>\$100,652</u>	<u>\$21,151</u>	<u>\$121,803</u>

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER RATE BASE			SCHEDULE NO. 1-B DOCKET NO. 130211-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENT S TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,394,937	(\$899,028)	\$495,909
2. LAND & LAND RIGHTS	33,087	(5,152)	27,935
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(1,272,981)	864,431	(408,551)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>16,697</u>	<u>16,697</u>
8. WASTEWATER RATE BASE	<u>\$155,043</u>	<u>(\$23,053)</u>	<u>\$131,990</u>

S.V. UTILITIES, LTD.
TEST YEAR ENDED 6/30/2013
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 130211-WS
PAGE 1 OF 1

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect original cost study as of 12/31/2006 (AF 1)	(\$110,456)	(\$910,048)
2. To reflect staff audit adjustments from report in Dkt. 070413-WS (AF1)	5,426	4,542
3. To reflect plant additions and retirements (AF 2)	(41,376)	2,528
4. To reflect simple average	(201)	(1,128)
5. To capitalize meter lids	733	0
6. To capitalize pump	0	1,637
7. To capitalize portable controller	0	1,566
8. To capitalize billing software	<u>1,875</u>	<u>1,875</u>
Total	<u>(\$143,999)</u>	<u>(\$899,028)</u>
<u>LAND</u>		
1. To reflect land at original cost per audit in Dkt. 070413-WS	<u>(\$5,074)</u>	<u>(\$5,152)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect the appropriate test year accumulated depreciation (AF5)	\$156,854	\$856,832
2. Add depreciation for meter lids, pump, and controller	(22)	(120)
3. To reflect simple average	3,513	8,031
4. To reflect depreciation on billing software	<u>(313)</u>	<u>(313)</u>
Total	<u>\$160,033</u>	<u>\$864,431</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O&M expenses.	<u>\$10,191</u>	<u>\$16,697</u>

S.V. UTILITIES, LTD.
TEST YEAR ENDED 6/30/2013
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	(\$268,179)	\$360,767	\$92,588					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$268,179)	\$360,767	\$92,588	161,205	253,793	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	7.00%	0.00%
7. LONG TERM DEBT	<u>360,767</u>	<u>(360,767)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	0.00%
TOTAL LONG TERM DEBT	\$360,767	(\$360,767)	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
9. TOTAL	<u>\$92,588</u>	<u>\$0</u>	<u>\$92,588</u>	<u>\$161,205</u>	<u>\$253,793</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

S.V. UTILITIES, LTD.					SCHEDULE NO. 3-A	
TEST YEAR ENDED 6/30/2013					DOCKET NO. 130211-WS	
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUSTMENTS FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$74,417</u>	<u>(\$55)</u>	<u>\$74,362</u>	<u>\$31,125</u> 41.86%	<u>\$105,487</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$43,891	\$37,639	\$81,530	\$0	\$81,530	
3. DEPRECIATION (NET)	11,374	(2,811)	8,564	0	8,564	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	3,347	0	3,347	1,401	4,748	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$58,612</u>	<u>\$34,828</u>	<u>\$93,440</u>	<u>\$1,401</u>	<u>\$94,841</u>	
8. OPERATING INCOME/(LOSS)	<u>\$15,805</u>		<u>(\$19,078)</u>		<u>\$10,646</u>	
9. WATER RATE BASE	<u>\$100,652</u>		<u>\$121,803</u>		<u>\$121,803</u>	
10. RATE OF RETURN	<u>15.70%</u>		<u>-15.66%</u>		<u>8.74%</u>	

S.V. UTILITIES, LTD.					SCHEDULE NO. 3-B
TEST YEAR ENDED 6/30/2013					DOCKET NO. 130211-WS
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUSTMENTS FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$71,130</u>	<u>\$1,273</u>	<u>\$72,403</u>	<u>\$89,822</u> 124.06%	<u>\$162,225</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$119,577	\$13,996	\$133,573	\$0	\$133,573
3. DEPRECIATION (NET)	11,369	(1,539)	9,831	0	9,831
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,197	47	3,244	4,042	7,286
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$134,143</u>	<u>\$12,505</u>	<u>\$146,648</u>	<u>\$4,042</u>	<u>\$150,690</u>
8. OPERATING INCOME/(LOSS)	<u>(\$63,013)</u>		<u>(\$74,245)</u>		<u>\$11,536</u>
9. WASTEWATER RATE BASE	<u>\$155,043</u>		<u>\$131,990</u>		<u>\$131,990</u>
10. RATE OF RETURN	<u>-40.64%</u>		<u>-56.25%</u>		<u>8.74%</u>

S.V. UTILITIES, LTD.
TEST YEAR ENDED 6/30/2013
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 130211-WS
PAGE 1 OF 3

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To adjust utility revenues to audited test year amount.	<u>(\$55)</u>	<u>\$1,273</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/ 701)		
To allocate utility payroll	<u>\$28,560</u>	<u>\$11,273</u>
2. Purchased Power (615/715)		
To remove late fees (AF8)	(\$32)	(\$133)
To reduce purchase power due to excess unaccounted-for water	<u>(2,395)</u>	<u>0</u>
	<u>(\$2,427)</u>	<u>(\$133)</u>
3. Chemicals (618/718)		
To remove out of period expense	\$0	(\$336)
To remove unsupported transactions	0	(227)
To reduce chemical expense for excess unaccounted-for water	<u>(548)</u>	<u>0</u>
	<u>(\$548)</u>	<u>(\$563)</u>
4. Materials & Supplies (620/720)		
To remove unsupported transactions (AF 8)	(\$655)	\$0
To reclassify expense to water meters (AF2 & 8)	(1,602)	0
To include proper test year expense	150	0
To reclassify M&S expense to plant-lift stations	0	(\$2,988)
To reclassify M&S expense to water misc. plant	0	(1,781)
To remove unsupported transactions (AF 8)	0	(85)
To reclassify meter lids, pump, controller to plant	<u>(733)</u>	<u>(3,203)</u>
Subtotal	<u>(\$2,840)</u>	<u>(\$8,057)</u>
5. Contractual Services - Billing (630/730)		
To reflect incremental billing expenses due to monthly billing	<u>\$7,883</u>	<u>\$7,883</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

S.V. UTILITIES, LTD.	SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013	DOCKET NO. 130211-WS	
ADJUSTMENTS TO OPERATING INCOME	PAGE 2 OF 3	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
6. Contractual Services - Professional (631/731)		
To remove out of period expense	(\$600)	\$0
To remove unsupported transactions (AF 8)	0	(455)
To allocate salaries for accounting and administrative	2,925	2,925
To remove expense associated with another system	0	(280)
To reflect annualized permitting expense	<u>0</u>	<u>(707)</u>
Subtotal	<u>\$2,325</u>	<u>\$1,483</u>
7. Contractual Services - Testing (635/735)		
To reflect 3 year lead and copper testing	(\$363)	\$0
To reflect annual cost of groundwater monitoring for WWTP	0	200
To remove out of period expenses	(141)	(120)
To remove unsupported transactions (AF 8)	<u>0</u>	<u>(386)</u>
Subtotal	<u>(\$504)</u>	<u>(\$306)</u>
8. Contractual Services - Other (636/736)		
To remove unsupported transactions (AF 8)	<u>\$0</u>	<u>(\$110)</u>
9. Rents (640/ 740)		
To allocate mini-excavator lease expense	\$873	\$873
To allocate office rent expense	1,562	1,562
To reflect savings associated with mini-excavator	<u>(263)</u>	<u>(263)</u>
Subtotal	<u>\$2,172</u>	<u>\$2,172</u>
10. Transportation Expense (650/750)		
To remove out of period expenses	(\$289)	(\$126)
To remove unsupported expenses	<u>(116)</u>	<u>(201)</u>
To remove unsupported and out-of-period expenses (AF8)	<u>(\$405)</u>	<u>(\$327)</u>
11. Regulatory Commission Expense (665/765)		
To reflect 4-year amortization of rate case expense	<u>\$1,692</u>	<u>\$1,567</u>
12. Insurance Expense		
To include current premium for general liability	<u>\$1,732</u>	<u>(\$885)</u>
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$37,639</u>	<u>\$13,996</u>

S.V. UTILITIES, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130211-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 3 OF 3	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per 25-30.140, FAC (AF10)	(\$3,145)		(\$1,971)
2. To add depreciation for meter lids, pump, and controller	22		120
3. To reflect depreciation on billing software	<u>313</u>		<u>313</u>
	<u>(\$2,811)</u>		<u>(\$1,539)</u>
TAXES OTHER THAN INCOME			
1. To reflect appropriate RAFs (AF11)	<u>\$0</u>		<u>\$47</u>

S.V. UTILITIES, LTD.			SCHEDULE NO. 3-D
TEST YEAR ENDED 6/30/2013			DOCKET NO. 130211-WS
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$852	\$28,560	\$29,412
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	10,888	(2,427)	8,461
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,490	(548)	1,942
(620) MATERIALS AND SUPPLIES	7,519	(2,840)	4,679
(630) CONTRACTUAL SERVICES - BILLING	0	7,883	7,883
(631) CONTRACTUAL SERVICES - PROFESSIONAL	13,252	2,325	15,577
(635) CONTRACTUAL SERVICES - TESTING	1,278	(504)	774
(636) CONTRACTUAL SERVICES - OTHER	1,132	0	1,132
(640) RENTS	0	2,172	2,172
(650) TRANSPORTATION EXPENSE	3,187	(405)	2,782
(655) INSURANCE EXPENSE	789	1,732	2,521
(665) REGULATORY COMMISSION EXPENSE	0	1,692	1,692
(670) BAD DEBT EXPENSE	138	0	138
(675) MISCELLANEOUS EXPENSES	<u>2,366</u>	<u>0</u>	<u>2,366</u>
	<u>\$43,891</u>	<u>\$37,639</u>	<u>\$81,530</u>

S.V. UTILITIES, LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130211-WS	
MONTHLY WATER RATES			
	UTILITY'S CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
Base Facility Charge by Meter Size:			
5/8"X3/4"		\$4.41	\$0.08
3/4"		\$6.62	\$0.11
1"		\$11.03	\$0.19
1-1/4"		\$17.64	\$0.30
1-1/2"		\$22.05	\$0.38
2"		\$35.28	\$0.61
3"		\$70.56	\$1.21
4"		\$110.25	\$1.89
6"		\$220.50	\$3.79
8"		\$352.80	\$6.06
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons		\$1.28	\$0.02
Over 5,000 gallons		\$1.95	\$0.03
Charge per 1,000 gallons - General Service		\$1.43	\$0.02
<u>Irrigation</u>			
Base Facility Charge for All Meter Sizes:	\$7.86*	\$4.41	\$0.08
Charge per 1,000 gallons - Irrigation	\$0.65	\$1.43	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.71	\$8.25	
6,000 Gallons	\$15.71	\$12.76	
10,000 Gallons	\$18.33	\$20.56	

S.V. UTILITIES, LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130211-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
Base Facility Charge by Meter Size:			
5/8"X3/4"		\$9.10	\$0.10
3/4"		\$13.65	\$0.14
1"		\$22.75	\$0.24
1-1/4"		\$36.40	\$0.38
1-1/2"		\$45.50	\$0.48
2"		\$72.80	\$0.76
3"		\$145.60	\$1.53
4"		\$227.50	\$2.39
6"		\$455.00	\$4.77
8"		\$728.00	\$7.64
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$1.99	\$0.02
Charge per 1,000 gallons - General Service		\$2.38	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.71	\$15.07	
6,000 Gallons	\$15.71	\$21.04	
10,000 Gallons	\$18.33	\$25.02	