

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc. | DOCKET NO. 100471-SU
ORDER NO. PSC-11-0444-PAA-SU
ISSUED: October 7, 2011

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 INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that 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.

BACKGROUND

S & L Utilities, Inc., (S & L or Utility) is a Class C utility, which is currently providing wastewater service to approximately 76 customers in Marion County. The Utility is located in the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2010 Annual Report, S & L reported operating revenues of \$38,469 and operating expenses of \$27,102. The test period for setting rates is the historical twelve-month period ending December 31, 2010.

S & L was granted Certificate No. 334-S in 1983. The Utility's last staff-assisted rate case (SARC) was in 1987. On December 22, 2010, S & L filed an application for a SARC and paid the appropriate filing fee on February 21, 2011.

We have jurisdiction in this case pursuant to Sections 367.011, 367.0814, and 367.081, Florida Statutes (F.S.).

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FPSC-COMMISSION CLERK

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we must determine the overall quality of service provided by a utility by evaluating three separate components of wastewater operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Other considerations include customers' comments or complaints, and the Utility's compliance with the Florida Department of Environmental Protection (DEP). We find the quality of service provided by S & L to be marginal.

Quality of the Utility's Product and Operational Condition of the Plant and Facilities

In its last rate case, the quality of service provided by S & L was found to be unsatisfactory.¹ It was noted that the plant capacity was critically overloaded and customers complained about odor and sewer backups. The Utility subsequently doubled the plant capacity from 15,000 gallons per day (gpd) to 30,000 gpd in 1987.

DEP issued a domestic wastewater facility operating permit to the Utility on October 13, 2004, with a requirement that the percolation pond be routinely maintained to control vegetation growth and to maintain percolation capability by removal of solids. The Utility has not complied with this requirement. On February 15, 2010, DEP renewed the Utility's wastewater facility operating permit with a condition that the percolation pond be cleaned within 90 days of the issuance of the permit. However, to date the pond has not been cleaned.

As a result of a July 2010 DEP inspection, a Warning Letter was issued citing unauthorized discharge of effluent to a stormwater pond, unauthorized discharge of raw influent from the plant onto the ground, and failure to provide notification of unauthorized discharge of effluent to a stormwater pond. In addition, following a December 2010 inspection, DEP issued a noncompliance letter on February 1, 2011, noting the Utility's failure to clean the pond as previously required, as well as the Utility's failure to submit Discharge Monitoring Reports (DMRs) and provide an annual calibration report for the effluent meter. In addition, the letter noted that the Utility's February 2010 DMR indicated an excessive nitrate level, the percolation pond contained excessive solids and vegetation, and the clarifier weir was not level. The Utility made substantial repairs and improvements, and on March 18, 2011, DEP issued a short form consent order (SFCO) indicating that the corrective actions required to bring the facility into compliance with the Warning Letter had been performed. The SFCO required the Utility to pay a fine. The Utility requested a payment plan after the execution of the original SFCO. DEP agreed, and an amended SFCO was executed on June 15, 2011, extending payments out to 12 months from execution.

¹ See Order No. 18394, issued November 6, 1987, in Docket No. 870322-SU, In re: Application of S & L Utilities, Inc. for a staff-assisted rate case in Marion County, Florida.

A field investigation of the service area was conducted on March 30, 2011. The wastewater treatment plant appeared to be operating normally, but components of the system needed further improvements. According to DEP, the Utility is currently in compliance with DEP's standards with respect to nitrate levels, and the Utility is now submitting the required DMRs. However, while the Utility has resolved some of DEP's concerns addressed in the February 1, 2011 noncompliance letter, DEP's concerns with respect to the pond have not been resolved. According to DEP, the Utility will be required to clean the pond as soon as possible. The Utility indicated that it has not had sufficient funds to clean the pond.

The Utility has requested that we consider pro forma plant related to cleaning the pond, replacing pumps at the lift stations, replacing air blowers at the wastewater plant, and performing a videography of the collection system. These proposed improvements are addressed below.

Customer Satisfaction

A customer meeting was held on June 23, 2011, in Ocala, Florida. Representatives of the Utility were present. Seven customers attended, and six customers expressed their concerns regarding sewage backups, the condition of the percolation pond, wastewater treatment plant odor, and the customers' inability to contact the Utility. In addition, about 25 customers filed petitions to deny the rate increase, stating that they cannot afford a rate increase because they live on a fixed income.

Several customers complained at the customer meeting and in writing about chronic sewage backups. One customer indicated that a 2007 sewage backup resulted in damage to her house. She also noted that she had to personally pay for the remodeling because the Utility was unwilling to pay for the damage caused by the spill. Another customer described a March 2011 sewage backup in his home. Customers living near the lift station #2 have had to install a sewer backflow valve, at the customer's expense, to prevent sewage from entering their homes. According to DEP, a 100-gallon spill occurred at lift station #1 in February 2011, due to a broken PVC fitting.

Two customers complained about their inability to contact the Utility. The Utility indicated that S & L Utilities is listed in the local telephone directory, and the Utility's telephone number is on the monthly billing statements. Further, there are signs posted at the treatment plant and lift stations that provide the telephone number of the company retained to operate the system. The Utility also states that the operator is on call 24 hours.

Customers also commented about an offensive odor at the wastewater treatment plant and the Utility's failure to clean the percolation pond. DEP was contacted about odor complaints, but DEP was not aware of that problem. Additionally, none of the complaints received addressed the issue of odor at the wastewater plant.

A review of our Consumer Activity Tracking System (CATS) for the past three years revealed that while no complaints have been filed in the past three years, a complaint made in

2007 was recently closed after repairs were made to a lift station gravity line near a customer's home.

Summary

Although the Utility's WWTP is currently operating satisfactorily, the Utility has failed to comply with DEP requirements to clean and perform routine maintenance at the percolation pond on a timely basis, and the lift stations have not been properly maintained resulting in chronic spills. While the Utility has made some efforts to comply with DEP and has requested that pro forma plant be considered in this case to address outstanding DEP concerns, the quality of S & L's product and the operational condition of the plant is considered marginal. However, the Utility appears to address customer concerns satisfactorily.

USED AND USEFUL

The Utility's wastewater treatment system includes two lift stations, a collection system of vitrified clay pipe, and an extended aeration activated sludge treatment plant. The wastewater treatment plant (WWTP) is permitted by DEP at 30,000 gpd based on the three-month average daily flow. Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation pond.

Pursuant to Rule 25-30.432, F.A.C., the used and useful (U&U) percentage for a WWTP is based on the plant flows, a growth allowance, less any excessive inflow and infiltration (I&I), divided by the permitted capacity of the plant. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation, may also be considered. In the last rate case, S & L's WWTP and collection system were found to be 100 percent U&U.

S & L's WWTP plant three-month average daily flow during the test year was 16,133 gpd. There does not appear to be excessive infiltration and inflow in the collection system. There are no vacant lots in the service area; therefore, the system is built out. We find the WWTP and collection system to be 100 percent U&U, because the system is built out.

RATE BASE

S & L's rate base was last established by Order No. 18394.² A test year ending December 31, 2010, was used for this rate case. A summary of each component and the adjustments follows:

Utility Plant In Service (UPIS): The Utility recorded a test year UPIS balance of \$152,328. Adjustments were made related to recording plant additions based on invoices and to capitalize plant recorded as expenses. Also, S & L completed certain pro forma plant additions in May and June 2011, which were outside of the test year. The Utility replaced the pumps on its two lift

² See Order No. 18394, issued November 6, 1987, in Docket No. 870322-SU, In re: Application of S & L Utilities, Inc., for a staff-assisted rate case in Marion County, Florida.

stations to address customer concerns related to sewage backups. The total cost for the pro forma plant additions is \$4,426, and we find the cost of the pro forma plant additions to be reasonable and prudent. Therefore, the UPIS shall be increased to reflect the pro forma plant additions, and the UPIS is decreased by \$3,321 to reflect the retirement of replaced plant associated with the pro forma additions. The following adjustments were made to the UPIS amount.

Table 3-1

<u>UTILITY PLANT IN SERVICE</u>	<u>WASTEWATER</u>
1. To reflect 2008 plant additions to Acct. No. 370 for installing new pumps at lift station.	\$4,247
2. To reflect 2008 plant retirements to Acct. No. 370 for installing new pumps at lift station.	(3,185)
3. To reflect 2009 plant additions to Acct. No. 382 for building the return line and main blower line.	1,049
4. To reflect 2009 plant additions to Acct. No. 360 for installing new motors at lift station.	2,575
5. To reflect 2009 plant retirements to Acct. No. 360 for installing new motors at lift station.	(1,388)
6. To reclassify plant recorded as expense to Acct. No. 360 for costs of pool pumps, motor starter, and clock.	2,265
7. To reclassify plant recorded as expense to Acct. No. 365 for new sewer line.	1,094
8. To reflect an averaging adjustment.	(1,680)
9. To reflect pro forma plant additions to Acct. No. 370 for installing new pumps at lift station.	4,426
10. To reflect pro forma plant retirement to Acct. No. 370 for installing new pumps at lift station.	(3,321)
Total	<u>\$6,083</u>

The net result of the adjustments to UPIS represents an increase of \$6,083, resulting in a UPIS balance of \$158,411.

Land & Land Rights: S & L recorded a test year land value of \$12,955, which the land value was reduced by \$12,955. In S & L's last rate case, the land value was reduced to zero because the Utility did not hold title to the land. Also, S & L was to obtain title or a long-term lease for the land.³ According to the Marion County Property Appraiser, S & L now has title to the land. However, the land was contributed to the Utility by a quitclaim deed. Therefore, we approve a land value of \$0.

Non-used and Useful Plant: As discussed above, S & L's service territory is built out and the wastewater treatment plant is 100 percent U&U. Therefore, no adjustments are necessary.

Accumulated Depreciation: The Utility recorded a test year accumulated depreciation balance of \$134,728. An accumulated depreciation was calculated using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, accumulated depreciation was increased by \$6,700 to reflect calculated depreciation. In addition, this account was increased by \$957 to reflect an averaging adjustment and by \$3,320 to reflect the removal of accumulated depreciation related to the plant retirement. Finally, the accumulated depreciation was increased by \$89 for accumulated

³ See Order No. 18394, issued November 6, 1987, in Docket No. 870322-SU, In re: Application of S & L Utilities, Inc. for a staff-assisted rate case in Marion County, Florida, at pg. 5.

depreciation related to pro forma plant. These adjustments result in an average accumulated depreciation balance of \$137,239.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., one-eighth of the operation and maintenance (O&M) expense formula approach was used for calculating the working capital allowance. Applying this formula, we approve a working capital allowance of \$6,222 (based on O&M expense of \$49,773). Working capital has been increased by \$6,222 to reflect one-eighth of the O&M expenses.

Rate Base Summary: Based on the forgoing, the appropriate test year average rate base is \$27,394. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

RATE OF RETURN

The Utility's capital structure consists of 57.5 percent common equity and 42.5 percent long-term debt. The appropriate ROE is 9.93 percent using the approved leverage formula currently in effect.⁴ The Utility's capital structure has been reconciled with the rate base. Therefore, we approve an ROE of 9.93 percent, with a range of 8.93 percent to 10.93 percent, and an overall rate of return of 7.83 percent. The ROE and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

S & L recorded total revenues of \$35,650. This amount included \$34,956 for service revenues, \$294 for miscellaneous revenues, and \$400 for uncategorized income. Based on a review of the test year billing units, the test year service revenues was determined to be \$40,283. The test year revenues were increased by \$5,327 (\$40,283-\$34,956) to reflect the appropriate service revenues. In addition, the recording of salvage value was removed as income of \$400 pursuant to Audit Finding 5. Based on the above adjustments, we approve a test year revenues of \$40,577 (\$40,283 + \$294). Test year revenues are shown on Schedule No. 3-A.

OPERATING EXPENSES

The Utility recorded operating expenses of \$29,198 during the test year ended December 31, 2010. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Several adjustments were made to the Utility's operating expenses, as summarized below:

Salaries and Wages Officers (610/710) – S & L did not record a salary for its president. The Utility requested an annual salary for the Utility's president of \$520 per month or \$6,240

⁴ See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, and PSC-11-0326-CO-WS, issued August 2, 2011, in Docket No. 110006-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.

annually. The Utility president works 35 hours a month attending to customer service and other administrative duties. We find that \$520 a month is a reasonable amount. Therefore, we approve an officer annual salary expense of \$6,240.

Contractual Services - Professional (631/731) – The Utility recorded contractual services - professional expense of \$4,748. This expense was decreased by \$708 to capitalize plant recorded as expense. In addition, this expense was decreased by \$3,680 to reclassify the plant operator expense to contractual services - other. The net adjustment represents a decrease of \$4,388. Therefore, we approve contractual services – professional expense of \$360.

Contractual Services - Other (636/736) – S & L recorded contractual services - other expense of \$4,248. Several adjustments were made to contractual services – other expense that relate to capitalized plant additions, reclassified expenses, office manager fees and plant operator fees. The Utility has requested an office manager fee of \$1,170 per month or \$14,040 annually for Mr. Clark Yandle. Mr. Yandle works approximately 39 hours per month handling all of the primary duties of the Utility. He is responsible for providing oversight of all contract labor resolving customer complaints, performing all accounting functions, acting as the liaison between the Utility and all regulatory agencies, preparing and mailing customer bills, processing the customer payments, and making the deposits at the bank. We find that the office manager fee is reasonable for his duties.

During the test year, the Utility paid \$5,520 for plant operator services and testing. S & L’s test year amount for operator and testing services is not reflective of the actual cost of the services. This amount was paid to a company, which had been providing the services to S & L at a reduced cost. On a going-forward basis, the company had indicated to the Utility that it was not going to be able to continue its services at the reduced cost. However, S & L has changed its operator services to another company.

The Utility has entered into a contract with U.S. Water Corporation (U.S. Water). S & L believes U.S. Water is better suited at assisting the Utility with achieving and maintaining compliance with regulatory agencies. The contract amount with U.S. Water is \$720 per month, or \$8,640 per year. We find this amount to be reasonable for the duties performed by U.S. Water. Therefore, we approve the increase of \$3,120 to this account to reflect the appropriate plant operator fee. The following adjustments were made:

Table 6-1

<u>CONTRACTUAL SERVICES - OTHER (736)</u>	<u>WASTEWATER</u>
1. To capitalize plant recorded as expense to Acct. No. 360.	(\$1,559)
2. To capitalize plant recorded as expense to Acct. No. 365.	(1,093)
3. To reclassify plant operator expense from miscellaneous expense.	1,840
4. To reclassify repairs from miscellaneous expense.	2,961
5. To reclassify lawn services from miscellaneous expense.	650
6. To reclassify plant operator expense from contractual services – professional.	3,680
7. To reflect management fee.	14,040

8. To reflect pro forma adjustment for increase operator fee.	<u>3,120</u>
Total	<u>\$23,639</u>

Based on the net adjustment of \$23,639, we approve contractual services – other expense of \$27,887.

Rent Expense (640/740) – The Utility recorded rent expense of \$0 for the test year. The Utility’s office is located in the personal residence of the Utility’s president. The home is 2,100 square feet (sq. ft.). The office space is 256 sq. ft. The Utility’s allocation shall be based on the percentage of sq. ft. occupied by S & L, which is approximately 12 percent (256 sq. ft. /2,100 sq. ft.). The monthly cost related to the mortgage and electricity is \$872. The Utility’s allocation of 12 percent of the monthly cost is approximately \$105 monthly or \$1,255 annually. Therefore, we approve the rent expense of \$1,255.

Insurance Expense (655/755) – The Utility recorded insurance expense of \$819. This expense was decreased by \$819 to remove a non-Utility insurance expense related to the personal residence of the Utility president. During the test year, the Utility did not have general liability insurance. S & L has obtained general liability insurance and paid the annual premium of \$2,543. Therefore, the Utility shall make a pro forma increase in insurance expense for the general liability policy, and we approve an insurance expense of \$2,543.

Regulatory Commission Expense (665/765) – During the test year, S & L recorded \$0 in this account. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility is required by Rule 25-22.0407(b)(9), F.A.C., to mail notices of the customer meeting in this case to its customers. The estimated noticing expense of \$67 for postage expense, \$53 for printing expense, and \$8 for envelopes is appropriate. S & L’s filing fee was \$200. Based on the above, total rate case expense for the filing and noticing is \$328 (\$67+\$53+\$8+\$200) with a resulting 4-year amortization of \$82. This account was increased by \$82 (\$328/4). We approve a regulatory commission expense for the test year of \$82.

Miscellaneous Expense (675/775) – S & L recorded miscellaneous expense of \$7,642. The following adjustments were made.

Table 6-2

<u>MISCELLANEOUS EXPENSE (775)</u>	<u>WASTEWATER</u>
1. To reflect 5-year amortization of the wastewater permit (\$3,505/5).	\$701
2. To reclassify plant operator expense to contractual services – other.	(1,840)
3. To reclassify repairs to contractual services – other.	(2,961)
4. To reclassify expense for lawn services to contractual services -other.	(650)
5. To reflect correct allocation for Utility phone service.	(1,489)
6. To reclassify license fees to taxes other than income.	(300)
7. To reflect cost for postage and postcards for billing.	<u>260</u>
Total	<u>(\$6,279)</u>

Based on the net adjustment of \$6,279, we approve a miscellaneous expense balance of \$1,363.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense shall be increased by \$22,272. Adjustments to O&M expenses are shown on Schedule Nos. 3-A, 3-B and 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record depreciation expense. Depreciation expense was calculated using the prescribed rates set forth in Rule 25-30.140, F.A.C. Depreciation expense is calculated as \$1,594. S & L has no amortization of CIAC. Therefore, we approve net depreciation expense of \$1,594.

Taxes Other Than Income (TOTI) – S & L recorded a TOTI balance of \$1,697. The TOTI was increased by \$113 to reflect the appropriate property taxes. In addition, the TOTI was increased by \$477 to reflect the appropriate payroll taxes associated with the president's salary. The license fee of \$300 from miscellaneous expense was reclassified to TOTI. Furthermore, the TOTI was increased by \$129 [(\$40,577x4.5%)-\$1,826] to reflect the appropriate RAFs for the test year revenues. Revenues have been increased by \$19,356 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the return on investment. As a result, TOTI shall be increased by \$871 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, we approve a TOTI of \$3,588.

Income Tax – The Utility recorded income tax of \$0. S & L is an 1120C corporation; however, the Utility has a large amount of tax-loss carry-forwards recorded on its books. This tax-loss carry-forward is in excess of the income tax provision going-forward and is expected to continue to be so over the next few years. In this instance, it is our practice to allow no provision for income tax.⁵ Therefore, we deny any provision for income taxes.

Operating Expenses Summary – The application of adjustments to S & L's test year operating expenses result in operating expenses of \$54,955. Operating expenses and adjustments are shown on Schedule Nos. 3-A and 3-B, respectively.

OPERATING RATIO METHODOLOGY

Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a SARC as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenues of less than \$250,000 per system may petition for our staff's assistance in alternative rate setting.

⁵ See Order Nos. PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.; PSC-09-0790-PAA-WU, issued November 30, 2009, in Docket No. 090170-WU, In re: Application for staff-assisted rate case in Lee County by Mobile Manor Water Company, Inc.; and PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS, In re: Application for staff-assisted rate case in Brevard County by CGD Corporation.

Although S & L did not petition for alternative rate setting under the aforementioned rule, we exercised our discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the utility's rate base, the revenue requirement is based on the margin of S & L's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, for the first time, the operating ratio methodology was used as an alternative means for setting rates.⁶ This order also discussed criteria related to the use of the operating ratio methodology and provided a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.⁷ Most recently, the use of the operating ratio methodology was approved for setting rates in Order No. PSC-10-0167-PAA-WU.⁸

In Order No. PSC-96-0357-FOF-WU, a description was given of the criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria outlined in Order No. PSC-96-0357-FOF-WU and how they apply to the Utility, is discussed below:

- 1) Whether the Utility's O&M expense exceeds rate base. In the instant case, the rate base is substantially less than the level of O&M expense. The adjusted rate base for the test year is \$27,394, while adjusted O&M expenses are \$49,773.
- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenues of \$250,000 or less. S & L is a Class C utility and the revenue requirement of \$59,932 is substantially below the threshold-level for Class B status (\$200,000 per system). The Utility's service area has not had any growth in the last five years and is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As mentioned earlier, a condition of S & L's permit is to have its percolation ponds cleaned. DEP has required the Utility to complete the cleaning within 90 days of the issuance of its permit dated February 15, 2010. To date, the pond cleaning has not been completed. We find the quality of service to be marginal. The quality of service was found unsatisfactory in the Utility's last rate case.⁹ S & L still has an outstanding

⁶ See Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

⁷ See Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

⁸ See Order No. PSC-10-0167-PAA-WU, issued March 23, 2010, in Docket No. 090346-WU, In re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System.

⁹ See Order No. 18394, issued November 6, 1987, in Docket No. 870322-SU, In re: Application of S & L Utilities, Inc. for a staff-assisted rate case in Marion County, Florida.

compliance issue with DEP. However, the Utility shall not be disqualified from the operating ratio method because it has not completed the percolation pond cleaning.

4) Whether the Utility is developer-owned. The current Utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. S & L operates a wastewater treatment plant and collection system.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, it was determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question was not what the return percentage shall be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility. In these cases, we apply a 10 percent margin.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the Utility to cover its interest expense. In this case, the interest expense is approximately \$1,012. The Utility's return on rate base results in \$2,146 of operating income.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin shall adequately compensate the utility owner for that risk. Under the rate base method, the return to S & L amounts to only \$2,146, which is enough to cover only a 4.3 percent variance in O&M expenses. We find that \$2,146 is insufficient as a financial cushion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from the estimates, S & L could have insufficient funds to cover operating expenses. Therefore, the margin shall provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility only \$2,146. After deducting interest expense, S & L would only have \$1,134 of operating income to cover revenue and expense variances. If the Utility's operating expenses increase, S & L may not have the funds required for day-to-day operations.

We find that the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would provide. Therefore, in order to provide S & L with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we approve the application of the operating ratio methodology at a margin of 10 percent of O&M expenses.

REVENUE REQUIREMENT

We approve S & L receiving an annual increase of \$19,355 (47.70 percent). This will allow the Utility the opportunity to recover its expenses and a 10.00 percent cushion over its O&M expenses. The calculations are as follows:

Table 8-1

Adjusted O&M Expenses	\$49,773
Rate of Return/Operating Margin	10.00%
Operating Margin	\$4,977
Adjusted O&M Expense	49,773
Depreciation expense (Net)	1,594
Amortization	0
Taxes Other Than Income	3,588
Income Tax	0
Revenue Requirement	\$59,932
Less Adjusted Test Year Revenues	\$40,577
Annual Increase	\$19,355
Percent Increase/(Decrease)	47.70%

RATES AND RATE STRUCTURE

The rates shall be designed to produce revenue of \$59,638, excluding miscellaneous service charges. The Utility's current wastewater rate structure, which consists of a flat rate, shall remain unchanged. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff approves the proposed customer notice, and the customers have received the notice. The Utility shall provide proof of the date that the notice was given within 10 days of the date of the notice.

There shall be a revenue requirement of \$59,932. However, after excluding miscellaneous service revenues of \$294, the revenue to be recovered through rates is \$56,638.

The Utility's current rate structure consists of a flat rate structure. The Utility's flat rate is \$44.17 per month for residential service. Our preferred wastewater rate structure is a base facility charge (BFC)/uniform rate structure. However, the customers purchase their water service from Marion County. Our policy has been to allow the use of flat rate for wastewater service in situations where metered water consumption is not possible.¹⁰ For this reason, we approve the continuation of the flat rate structure.

Since metered consumption is not available, the revenue requirement increase shall be applied as an across-the-board increase to the wastewater system's current flat rate. To determine the appropriate percentage increase to apply to the service rates prior to filing, miscellaneous service revenues shall be removed from the test year revenues.

Wastewater

1.	Total Test Year Revenues	\$40,577
2.	Less: Miscellaneous Revenues	<u>\$294</u>
3.	Test Year Revenues from Service Rates	\$40,283
4.	Revenue Increase	<u>\$19,355</u>
5.	% Service Rate Increase (Line 4/Line3)	<u>48.05%</u>

Therefore, we approve the across-the-board increase of 48.05%, which shall be applied to the Utility's current flat rate of \$44.17. This results in a flat rate charge of \$65.39.

Furthermore, a Phase II revenue requirement associated with pro forma plant improvements is appropriate. A Phase II revenue requirement increase of 5.03 percent shall be applied as an across-the-board increase to the wastewater system's Phase I flat rate of \$65.39. This results in a flat rate charge of \$68.68 after S & L has completed the pro forma additions and after Phase II rates have been implemented.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff approves the proposed customer notice, and the customers have received the notice. The Utility shall provide proof of the date the notice was given to the customers within 10 days of the date of the notice.

A comparison of the Utility's rates prior to filing rates is shown on Schedule No. 4.

¹⁰ See Order Nos. 11033, issued July 27, 1982, in Docket No. 810215-S, In re: Nu-Age Utility Corporation.; PSC-08-0646-PAA-SU, issued October 6, 2008, in Docket No. 080079-SU, In re: Application for certificate to provided wastewater service in Highlands County by Utility Corporation of Florida, Inc.

AMORTIZED RATE

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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated operating margin, and the gross-up for RAFs, which is \$94. Using the Utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

The wastewater rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility 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 S & L files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

NON-SUFFICIENT FUNDS FEE

Section 367.091, F.S., requires the approval of rates, charges, and customer service policies. Authority has been established to increase or change a rate or charge. S & L has requested an NSF fee in accordance with Section 832.08(5), F.S.

S & L shall be authorized to collect an NSF fee consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), F.S., the following fees may be assessed:

- 1) \$25, if the face value does not exceed \$50,
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3) \$40, if the face value exceeds \$300, or
- 4) five percent of the face amount of the check, whichever is greater.

Pursuant to our prior decisions, approval of an NSF fee properly assigns costs to the cost causer.¹¹ As such, S & L's proposed NSF fee is approved. This fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

¹¹ See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at pg.20; PSC-10-0168-PAA-SU, issued March

We approve the Utility's request for a Non-Sufficient Funds (NSF) fee. The NSF fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until our staff approves the proposed customer notice. The Utility shall provide proof of the date the notice was given to the customer within 10 days of the date of the notice.

LATE PAYMENT FEE

S & L is not currently authorized to collect late payment charges. The Utility requested to implement a late payment charge. The purpose of a late payment charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies upon those who are the cost causers.

In the past, late payment fee requests have been handled on a case-by-case basis. Late fees have been approved in the amount of \$5.¹² Presently, a utility may require late payers to provide an additional deposit. However, there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit.¹³ We have found that the cost causer shall pay the additional cost incurred by the utility due to late payments, rather than the general body of the utility's customers. The goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

There is a need for this incentive. As noted above, a late payment charge of \$5 is consistent with our prior practices and orders. A late payment charge of less than \$5 would not allow S & L to recover its costs of processing delinquent accounts, nor would it send the appropriate signal to delinquent payers. In the majority of cases, we approved a late fee charge of \$5. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Therefore, we find that \$5 is a reasonable fee for S & L.

We approve a \$5 late payment fee for S & L. The late fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved pursuant to Rule 25-30.475, F.A.C., the late

23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; and PSC-94-0036-FOF-TL, issued January 11, 1994, in Docket No. 930901-TL, In re: Request for approval of tariff filing to increase service connection charges and establish a non-sufficient funds check charge by Vista-United Telecommunications.

¹² See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; and PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide wastewater service and to establish new water and wastewater rates in Lee and Charlotte Counties by Town and Country Utilities Company.

¹³ See Order No. in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

payment charge shall become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been properly noticed.

PRO FORMA PLANT AND EXPENSES

We approve a Phase II revenue requirement associated with pro forma item. S & L's appropriate ROE shall be 11.16 percent with a range of 10.16 to 12.16 percent. The appropriate overall rate of return is 7.17 percent. The Utility's Phase II revenue requirement is \$62,929, which equates an increase of 5.00 percent over the Phase I revenue requirement. S & L shall complete the pro forma items within 12 months of the issuance of the consummating order. The Utility shall be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system. Once verified, the rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until the customers have received notice. S & L shall provide proof of the date that the notice was given within 10 days of the notice date. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately provide written notification.

The Utility requested recognition of additional pro forma plant items that it intends to complete. The following is a chart summarizing the pro forma plant items, the cost, and treatment:

Table 13-1

	<u>Pro forma Plant Items</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
1.	Replace two air blowers	\$15,997	\$15,997
2.	Pond clean	35,000	35,000
3.	Videography of lines in the collection system	<u>5,000</u>	<u>5,000</u>
	Total	<u>\$55,997</u>	<u>\$55,997</u>

S & L was required by DEP to clean its percolation pond as a condition for renewal of its wastewater operating permit. The Utility requested to recover the cost associated with cleaning the percolation pond, replacing air blowers at the wastewater plant, and having a videography of the collection system. S & L's proposed pro forma plant items are reasonable and prudent, because it would allow the Utility to improve its quality of service. The Utility shall be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items.

We approved a Phase II revenue requirement associated with the pro forma plant items. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In the past, there have been instances when we approved revenue requirements associated with pro forma items only to have the utility in question fail to complete the pro forma investments. In addition, addressing the pro forma items in a single case saves

additional rate case expense to the customers, because the Utility would not need to file another rate case or limited proceeding to seek recovery for them. We had approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.¹⁴

The Utility's Phase II revenue requirement shall be \$62,929. 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.

S & L shall be required to complete the pro forma items within 12 months of the issuance of the consummating order. The Utility shall also be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items within 15 days of the completion. The Utility shall be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the rates shall 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 shall not be implemented until the customers have received notice. S & L shall provide proof of the date that the 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 items, the Utility shall immediately submit a written notification to our staff.

TEMPORARY RATES IN THE EVENT OF A PROTEST

Pursuant to Section 367.0814(7), F.S., we approve temporary rates for the Utility, subject to refund, in the event of a protest filed by a party other than the Utility. S & L shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 notice, and the customers have received the notice. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. The approved temporary rates collected by the Utility shall be subject to the refund provisions discussed below. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Division of Economic Regulation 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.

The Utility shall be authorized to collect the temporary rates upon approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$14,538. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

¹⁴ See Order Nos. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.; and PSC-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

If the Utility 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 the Utility 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,
- 3) 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 the Utility;
- 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. 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall 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. The Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund.

PROOF OF ADJUSTMENTS

To ensure that the Utility adjusts its books in accordance with this Order, S & L 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 S & L Utilities, Inc.'s application for increase water and wastewater rates for Marion County is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that S & L Utilities, Inc., shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

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

ORDERED that the approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the customers have received the notice as set forth in the body of this Order. It is further

ORDERED that S & L Utilities, Inc., shall provide proof of the date that the notice was given no less than ten days after the date of the notice. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which rate case expense is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall 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. It is further

ORDERED that if S & L Utilities, Inc., files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that S & L Utilities, Inc.'s request for a Non-Sufficient Funds (NSF) fee is approved. The NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. The NSF fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice, and the customers have received the notice, as set forth in the body of this Order. It is further

ORDERED that S & L Utilities, Inc., shall provide proof of the date the notice was given within 10 days after the date of the notice. It is further

ORDERED that S & L Utilities, Inc., request for a late payment fee is approved. S & L Utilities, Inc., shall charge a late payment fee of \$5. It is further

ORDERED that the late fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved pursuant to Rule 25-30.475, F.A.C., the late payment charge shall become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been properly noticed. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the temporary rates approved herein shall be subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that prior to implementation of any temporary rates, S & L Utilities, Inc., shall provide appropriate security for the potential refund and the proposed customer notice. It is further

ORDERED that the security shall be in the form of a bond or letter of credit in the amount of \$14,538. Alternatively, the Utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that in no instance shall the maintenance and administrative costs associated with the refund of the temporary rates be borne by the customers. These costs are the responsibility of, and shall be borne by, S & L Utilities, Inc. It is further

ORDERED that irrespective of the form of security S & L, Utilities, Inc., chooses, S & L, Utilities, Inc., shall maintain an account of all monies received as a result of the rate increase. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that S & L Utilities, Inc., shall maintain a record of the amount of the bond and the amount of revenues that are subject to refund. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Division of Economic Regulation 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 reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that S & L Utilities, Inc., 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. It is further

ORDERED the provisions of this Order, issued as a proposed agency action except for the granting of temporary rates in the event of protest, the reduction for rate case expense, and the proof of adjustment of books, 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 the 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." It is further

ORDERED that in the event the proposed agency action Order becomes final, or in the event no protest is filed, this docket shall remain open until our staff has approved the revised tariffs sheets and customer notices; S & L Utilities, Inc., has sent the notices to its customers; our staff has received proof that the customers have received notice within 10 days after the date of the notice; S & L Utilities, Inc., has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made; and our staff has verified that the pro forma items have been completed and the Phase II rates properly implemented. Once all of the above actions and necessary verifications have been made, this docket shall be closed administratively. It is further

By ORDER of the Florida Public Service Commission this 7th day of October, 2011.



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

PER

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.

As identified in the body of this order, our proposed agency action approving the increase in rates and charges 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, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 28, 2011. 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 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

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DOCKET NO. 100471-SU

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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 & L UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$152,328	\$6,083	\$158,411
LAND & LAND RIGHTS	12,955	(12,955)	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(134,728)	(2,511)	(137,239)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,222</u>	<u>6,222</u>
WASTEWATER RATE BASE	<u>\$30,555</u>	<u>(\$3,161)</u>	<u>\$27,394</u>

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

SCHEDULE NO. 1-B
DOCKET NO. 100471-SU

WASTEWATER

UTILITY PLANT IN SERVICE

1.	To reflect 2008 plant additions to Acct. No. 370 for installing new pumps at lift station.	\$4,247
2.	To reflect 2008 plant retirements to Acct. No. 370 for installing new pumps at lift station.	(3,185)
3.	To reflect 2009 plant additions to Acct. No. 382 for building the return line and main blower line.	1,049
4.	To reflect 2009 plant additions to Acct. No. 360 for installing new motors at lift station.	2,575
5.	To reflect 2009 plant retirements to Acct. No. 360 for installing new motors at lift station.	(1,388)
6.	To reclassify plant recorded as expense to Acct. No. 360 for costs of pool pumps, motor starter, and clock.	2,265
7.	To reclassify plant recorded as expense to Acct. No. 365 for new sewer line.	1,094
8.	To reflect an averaging adjustment.	(1,680)
9.	To reflect pro forma plant additions to Acct. No. 370 for installing new pumps at lift station.	4,426
10.	To reflect pro forma plant retirement to Acct. No. 370 for installing new pumps at lift station.	(3,320)
	Total	<u>\$6,083</u>

LAND AND LAND RIGHTS

To reflect the appropriate land value.	<u>(\$12,955)</u>
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ACCUMULATED DEPRECIATION

1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$6,700)
2.	To reflect averaging adjustment.	957
3.	To retire accumulated depreciation for retired plant.	3,320
4.	To reflect accumulated depreciation for pro forma plant.	(89)
	Total	<u>(\$2,511)</u>

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O & M expenses.	<u>\$6,222</u>
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S & L UTILITIES, INC.
TEST YEAR ENDED 12/31/10
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 100471-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	<u>37,710</u>	<u>(11,387)</u>	<u>26,323</u>					
TOTAL COMMON EQUITY	\$38,710	(\$11,387)	27,323	(\$11,583)	15,740	57.46%	9.93%	5.71%
LONG TERM DEBT								
3. LTD - SHAMROCK SECURITY SYSTEM	<u>(21,384)</u>	<u>41,614</u>	<u>20,230</u>	<u>(8,576)</u>	<u>11,654</u>	<u>42.54%</u>	5.00%	2.13%
4. TOTAL	<u>\$17,326</u>	<u>\$30,227</u>	<u>\$47,553</u>	<u>(\$20,159)</u>	<u>\$27,394</u>	<u>100.00%</u>		<u>7.83%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>8.93%</u>	<u>10.93%</u>	
OVERALL RATE OF RETURN						<u>7.26%</u>	<u>8.41%</u>	

S & L UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/10			DOCKET NO. 100471-SU		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$35,650</u>	<u>\$4,927</u>	<u>\$40,577</u>	<u>\$19,355</u> 47.70%	<u>\$59,932</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$27,501</u>	<u>\$22,272</u>	<u>\$49,773</u>	<u>0</u>	<u>\$49,773</u>
3. DEPRECIATION (NET)	<u>0</u>	<u>1,594</u>	<u>1,594</u>	<u>0</u>	<u>1,594</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>1,697</u>	<u>1,020</u>	<u>2,717</u>	<u>871</u>	<u>3,588</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$29,198</u>	<u>\$24,886</u>	<u>\$54,084</u>	<u>\$871</u>	<u>\$54,955</u>
8. OPERATING INCOME/(LOSS)	<u>\$6,452</u>		<u>(\$13,507)</u>		<u>\$4,977</u>
9. WASTEWATER RATE BASE	<u>\$30,555</u>		<u>\$27,394</u>		<u>\$27,394</u>
10. OPERATING MARGIN*	<u>21.12%</u>		<u>-49.31%</u>		<u>10.00%</u>

(*UTILITY AND COMMISSION TEST YEAR ARE BASED ON RATE OF RETURN METHOD)

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

SCHEDULE NO. 3-B
DOCKET NO. 100471-SU
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WASTEWATER**OPERATING REVENUES**

1.	To increase residential revenues based on ERCs and the authorized tariff.	\$5,327
2.	To remove the Utility's recording of salvage value as income.	(400)
	Subtotal	<u>\$4,927</u>

OPERATION AND MAINTENANCE EXPENSES

	Salaries and Wages - Officers (710)	
a.	To reflect the appropriate officer's salary.	<u>\$6,240</u>
1.	Contractual Services - Professional (631/ 731)	
a.	To capitalize plant recorded as expense to Acct No. 360.	(708)
b.	To reclassify plant operator expense to contractual services – other.	<u>(3,680)</u>
		<u>(\$4,388)</u>
2.	Contractual Services - Other (636/ 736)	
a.	To capitalize plant recorded as expense to Acct. No. 360.	(1,559)
b.	To capitalize plant recorded as expense to Acct. No. 365.	(1,093)
c.	To reclassify plant operator expense from miscellaneous expense.	1,840
d.	To reclassify repairs from miscellaneous expense.	2,961
e.	To reclassify lawn services from miscellaneous expense.	650
f.	To reclassify plant operator expense from contractual services – professional.	3,680
g.	To reflect management fee.	14,040
h.	To reflect pro forma adjustment for increase operator fee.	<u>3,120</u>
		<u>\$23,639</u>
3.	Rent Expense (640/ 740)	
a.	To reflect appropriate office expense.	<u>\$1,255</u>
4.	Insurance Expenses (655/ 755)	
a.	To remove personal homeowner insurance.	(819)
b.	To include commercial Insurance for Utility.	<u>2,543</u>
		<u>\$1,724</u>
5.	Regulatory Expense (665/ 765)	
a.	To amortize rate case expense over 4 years (\$328/4).	<u>\$82</u>
6.	Miscellaneous Expense (675/ 775)	
a.	To reflect 5-year amortization of wastewater permit (\$3,505/5).	\$701
b.	To reclassify plant operator expense to contractual services – other.	(1,840)
c.	To reclassify repairs to contractual services – other.	(2,961)
d.	To reclassify expense for lawn services to contractual services –other.	(650)
e.	To reflect correct allocation for Utility phone service.	(1,489)
f.	To reclassify license fees to taxes other than income.	(300)
g.	To reflect cost for postage and postcards for billing.	<u>260</u>
		<u>(\$6,279)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$22,272</u>

(OPERATING EXPENSES CONTINUED ON NEXT PAGE)

S & L UTILITIES, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
		<u>WASTEWATER</u>
DEPRECIATION EXPENSE		
To reflect test year depreciation calculated per 25-30.140, F.A.C.		<u>\$1,594</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate RAFs.	\$129
2.	To reclassify license fees from miscellaneous expense.	300
3.	To reflect the appropriate property taxes.	113
4.	To reflect the appropriate payroll taxes.	<u>477</u>
	Total	<u>\$1,020</u>

S & L UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION ADJUST- MENT	TOTAL PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	6,240	6,240
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,800	0	1,800
(715) PURCHASED POWER	6,758	0	6,758
(716) FUEL FOR POWER PRODUCTION	105	0	105
(718) CHEMICALS	1,381	0	1,381
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	4,748	(4,388)	360
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	4,248	23,639	27,887
(740) RENTS	0	1,255	1,255
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	819	1,724	2,542
(765) REGULATORY COMMISSION EXPENSES	0	82	82
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>7,642</u>	<u>(6,279)</u>	<u>1,363</u>
	<u>\$27,501</u>	<u>\$22,272</u>	<u>\$49,773</u>

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S & L UTILITIES, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	COMMISSION APPROVED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Flat Rate	\$44.17	\$65.39	\$0.09

S & L UTILITIES, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
SCHEDULE OF WASTEWATER RATE BASE (PHASE II)			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$158,411	\$55,997	\$214,408
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(137,239)	(965)	(138,204)
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>\$27,394</u>	<u>\$55,032</u>	<u>\$82,425</u>

S & L UTILITIES, INC.

TEST YEAR ENDED 12/31/10

ADJUSTMENTS TO RATE BASE (PHASE II)

SCHEDULE NO. 5-B

DOCKET NO. 100471-SU

WASTEWATER

UTILITY PLANT IN SERVICE

1. To reflect pro forma plant addition for blowers to Account No. 380.	\$15,997
2. To reflect pro forma plant addition to clean pond to Account No. 380.	35,000
3. To reflect pro forma plant addition to install the video graphing to account No. 389.	<u>5,000</u>
Total	<u>\$55,997</u>

ACCUMULATED DEPRECIATION

To reflect pro forma accumulated depreciation.	<u>(\$965)</u>
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S & L UTILITIES, INC.
TEST YEAR ENDED 12/31/10
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	<u>37,710</u>	<u>(11,387)</u>	<u>26,323</u>					
TOTAL COMMON EQUITY	\$38,710	(\$11,387)	27,323	(\$5,574)	21,749	26.39%	11.16%	2.94%
LONG TERM DEBT								
3. LTD - SHAMROCK SECURITY SYSTEM	(\$21,384)	\$41,614	\$20,230	(\$4,127)	\$16,103	19.54%	5.00%	0.98%
4. LOAN FOR PRO FORMA PLANT	<u>55,997</u>	<u>0</u>	<u>55,997</u>	<u>(11,424)</u>	<u>44,573</u>	<u>54.08%</u>	<u>6.00%</u>	<u>3.24%</u>
TOTAL LONG TERM DEBT	<u>\$34,613</u>	<u>\$41,614</u>	<u>\$76,227</u>	<u>(\$15,551)</u>	<u>\$60,676</u>	<u>73.61%</u>		
4. TOTAL	<u>\$73,323</u>	<u>\$30,227</u>	<u>\$103,550</u>	<u>(\$21,125)</u>	<u>\$82,425</u>	<u>100.00%</u>		<u>7.17%</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>6.90%</u>	<u>7.43%</u>	

S & L UTILITIES, INC. TEST YEAR ENDED 12/31/10 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 7-A DOCKET NO. 100471-SU			
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$59,932</u>	<u>\$0</u>	<u>\$59,932</u>	<u>\$2,997</u> 5.00%	<u>\$62,929</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>1,594</u>	<u>1,930</u>	<u>3,523</u>	<u>0</u>	<u>3,523</u>	
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
5. TAXES OTHER THAN INCOME	<u>3,588</u>	<u>0</u>	<u>3,588</u>	<u>135</u>	<u>3,723</u>	
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>\$1,930</u>	<u>\$56,885</u>	<u>\$135</u>	<u>\$57,019</u>	
8. OPERATING INCOME/(LOSS)	<u>\$4,977</u>		<u>\$3,048</u>		<u>\$5,910</u>	
9. WASTEWATER RATE BASE	<u>\$27,394</u>		<u>\$82,425</u>		<u>\$82,425</u>	
10. RATE OF RETURN	<u>10.00%</u>		<u>3.70%</u>		<u>7.17%</u>	

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S & L UTILITIES, INC.

SCHEDULE NO. 7-B

TEST YEAR ENDED 12/31/10

DOCKET NO. 100471-SU

ADJUSTMENTS TO OPERATING INCOME

DEPRECIATION EXPENSE

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

\$1,930

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S & L UTILITIES, INC.		SCHEDULE NO. 8
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU
MONTHLY WASTEWATER RATES (PHASE II)		
	UTILITY'S PHASE I RATE	COMMISSION APPROVED RATE
<u>Residential Service</u>		
Flat Rate	\$65.39	\$68.68