

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-13-0137-PAA-SU
ISSUED: March 22, 2013

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION ORDER

BY THE COMMISSION:

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

Case Background

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

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

By letter dated, January 8, 2013, S & L indicated that it had completed the videography of the lines and the percolation pond cleaning. However, it was unable to complete the pro

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

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FPSC-COMMISSION CLERK

forma plant addition related to the two air blowers. S & L is requesting an extension of time until November 1, 2013 to replace the two air blowers.

We have authority to consider this matter pursuant to Section 367.0814, Florida Statutes (F.S.).

Decision

Extension of Time

Pursuant to Order No. PSC-11-0444-PAA-SU, S & L was given until November 1, 2012, to complete pro forma plant additions of \$55,997² prior to implementing Phase II rates. Subsequent to November 1, 2012, in response to an inquiry by our staff, the Utility indicated that the pond cleaning and the videography of the lines in the collection system had been completed. However, the Utility stated it had to hire an engineer for professional services related to this project and thus, the total cost of \$44,914 exceeded the \$35,000 authorized by our Order. The videography of the lines in the collection system was provided through a grant offered by the Florida Rural Water Association (FRWA); thus, the Utility did not have to spend the \$5,000 authorized in the Order for the videography. Nonetheless, the Utility spent \$44,914 for the completion of these two projects, \$4,914 in excess of the amount authorized by the Order for the two projects combined.

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

Phase II Rates

By Order No. PSC-11-0444-PAA-SU, we approved a Phase II increase that was to be implemented once all pro forma items had been completed. S & L completed two of the three pro forma additions. We are granting an extension of time until November 1, 2013, for the Utility to replace the two air blowers. In accordance with Order No. PSC-11-0444-PAA-SU, the Utility expected to spend \$55,997 on the three pro forma plant additions. S & L did not expend any of its own funds for the videography because it was funded by a grant from the FWRA. However, the Utility spent \$9,914 more than anticipated for the pond cleaning.³ The following

² For percolation pond cleaning, videography of lines in the collection system, and replacement of air blowers that were beyond their service lives.

³ Replacement of the two air blowers is discussed under the heading, Phase III Rates.

table shows the approved pro forma amounts and the Utility's revised costs for the pro forma plant additions.

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

Upon review, we find that the Utility has made a good faith effort to complete the pro forma plant additions in a timely manner. However, due to financial constraints, it was unable to replace the air blowers by November 1, 2012. Upon review, the Phase II revenue requirement shall be revised to reflect the \$44,914 for the cleaning of the percolation pond. We have reviewed the invoices and the incurred cost appears reasonable. Given the intervening events, this revised Phase II rate increase is consistent with the findings in Order No. PSC-11-0444-PAA-SU.

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

The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. Pursuant to Rule 25-30.475(1), F.A.C., the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, 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. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

Phase III Rates

By Order No. PSC-11-0444-PAA-SU, we approved a phased-in rate increase for the replacement of two air blowers. As discussed above, we have approved an extension of time until November 1, 2013, for the Utility to complete this project.

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

The Phase III increase shall be applied as an across-the-board increase to the Phase II rates. The Utility shall be allowed to implement these rates once the pro forma addition for the two air blowers has been completed and documentation is provided which demonstrates 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 notice has been received by the Utility's customers. S & L shall provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that impede the completion of the pro forma project, the Utility shall immediately notify this Commission in writing.

Initial Customer Deposit

Rule 25-30.311, F.A.C., establishes guidelines for collecting, administering, and refunding customer deposits. At subsection (7), this rule provides that new or additional customer deposits may be collected from existing customers based on an average monthly bill for a two-month period. S & L's existing tariff does not authorize the Utility to collect an initial customer deposit. Pursuant to this rule, we have calculated, and hereby approve, an initial customer deposit which is based on the Phase II rates. The Utility's existing and our approved initial customer deposit amounts are shown below:

WASTEWATER

RESIDENTIAL AND GENERAL SERVICE

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

The Utility shall file a revised tariff sheet and proposed notice consistent with this Order. The initial customer deposit shall become effective for connections made on or after the stamped

approval date of the revised tariff sheet, after the customers have been notified. The customer notice may be combined with the notice for the Phase II rate increase.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that S & L Utilities, Inc.'s request for an extension of time is hereby approved as set forth in the body of this Order. It is further,

ORDERED that S & L Utilities, Inc. shall have the final plant addition completed by November 1, 2013. 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 all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further,

ORDERED that the Phase II rates are hereby approved as set forth in the body of this Order. It is further,

ORDERED that Phase III rates are hereby approved as set forth in the body of this Order. It is further,

ORDERED that an initial customer deposit of \$136 is hereby approved as set forth in the body of this Order. It is further,

ORDERED that the provisions of this Order, issued as a 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 the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850, by close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review." It is further,

ORDERED that this docket shall remain open for our staff to verify that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff and to permit our staff to verify that the pro forma items have been completed and the Phase III rates properly implemented. Once these actions are completed, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 22nd day of March, 2013.



ANN COLE
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.

CWM

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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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.

The action proposed herein 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 April 12, 2013.

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

Any objection or protest filed in this/these docket(s) before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

S & L UTILITIES, INC.			
TEST YEAR ENDED 12/31/10			
SCHEDULE OF WASTEWATER RATE BASE (REVISED PHASE II)			
DESCRIPTION	COMMISSION APPROVED PHASE I	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$158,411	\$44,914	\$203,325
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(137,151)	(703)	(137,854)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>6,222</u>	<u>0</u>	<u>6,222</u>
WASTEWATER RATE BASE	<u>\$27,482</u>	<u>\$44,211</u>	<u>\$71,693</u>

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

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

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

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

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

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

S & L UTILITIES, INC.

TEST YEAR ENDED 12/31/10

ADJUSTMENTS TO RATE BASE (PHASE III)

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

WASTEWATER

UTILITY PLANT IN SERVICE

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

\$16,654

ACCUMULATED DEPRECIATION

To reflect pro forma accumulated depreciation.

(\$261)

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

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

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

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

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

DEPRECIATION EXPENSE

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

\$521

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