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Public Service Commission

June 8, 2011

Mrs. Teresa Fletcher
S & L Utilities, Inc.
P.O. Box 4186
Ocala, FL 34478

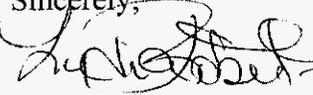
Re: Docket No. 100471-SU, Staff Assisted Rate Case for S&L Utilities, Inc. in Marion County.

Dear Mrs. Fletcher:

Enclosed are two copies of the Staff Report. Please ensure that a copy of the completed Application for Staff-Assistance and the Staff Report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

S&L Utilities, Inc.
719 SE 46th Court
Ocala, Florida 34471

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6877.

Sincerely,

Lydia Roberts
Regulatory Analyst II

Enclosures

/LR

cc: Division of Economic Regulation (Roberts, Hudson, Maurey, Fletcher, Simpson)
Office of General Counsel (Evans)
Office of Commission Clerk (Docket No. 100471-SU)

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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: May 31, 2011

TO: Andrew Maurey, Chief of Rate Filings, Division of Economic Regulation

FROM: Lydia Roberts, Regulatory Analyst, Division of Economic Regulation
Robert Simpson, Engineering Specialist, Division of Economic Regulation
Sonica Bruce, Regulatory Analyst, Division of Economic Regulation

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

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting

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Case Background

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed August 11, 2011, for the August 23, 2011, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

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 revenue of \$38,469 and operating expense of \$27,102.

S&L was granted Certificate No. 334-S in 1983.¹ The Utility's last staff-assisted rate case was in 1987.² In Docket Nos. 920780-SU³ and 050100-SU,⁴ the Commission initiated a show cause for violation of Rule 25-30.110(3), Florida Administrative Code (F.A.C.), which requires utilities subject to Commission jurisdiction as of December 31 of each year to file an annual report on or before March 31 of the following year. Pursuant to Rule 25-30.110(6)(c), F.A.C., any utility that fails to file a timely, complete annual report is subject to penalties, absent demonstration of good cause for noncompliance. S&L was not assessed the penalty in either instance due to medical circumstances of the Utility owners.

On December 22, 2010, S&L filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on February 21, 2011. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ See Order No. 11662, issued March 3, 1983, in Docket No. 810379-S, In re: Application of S&L Utilities, Inc. for a certificate and establishment of rates and charges for sewer service.

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.

³ See Order No. PSC-92-1045-FOF-SU, issued September 23, 1992, in Docket No. 920780-SU, In re: Initiation of show cause proceedings against S&L Utilities, Inc. for failure to remit penalty fee for filing delinquent 1989 annual report.

⁴ See Order No. PSC-05-0430-FOF-SU, issued April 20, 2005, in Docket No. 050100-SU, In re: Initiation of show cause proceedings against S&L Utilities, Inc. for violation of Rule 25-30.110, F.A.C.

Discussion of Issues

Issue 1: Is the quality of service provided by the Utility satisfactory?

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the June 23, 2011 customer meeting. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., the Commission determines 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. Comments or complaints received by the Commission from customers are reviewed and the Utility's compliance with the Florida Department of Environmental Protection (DEP) is also considered.

In the last rate case, Docket No. 870322-SU, the quality of service for the Utility was found to be unsatisfactory. 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.

Staff reviewed the Utility's DEP wastewater compliance inspection reports for the past three years and conducted a field investigation of the service area on March 30, 2011. Although the wastewater treatment plant appeared to be operating normally, components of the plant need further improvements. DEP renewed the Utility's domestic wastewater facility operating permit on February 15, 2010, with a condition that the percolation pond be cleaned within 90 days of the issuance of the permit. However, the Utility failed to meet that deadline, and 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 surface water, a spill on the ground surface near the influent tank of the wastewater plant, and effluent discharges not reported to the DEP. Subsequently, the Utility made substantial repairs and improvements. On March 18, 2011, DEP issued a short form consent order indicating that the corrective actions required to bring the facility into compliance with the Warning Letter had been performed. The consent order also required the Utility to pay a fine.

Staff contacted DEP on May 17, 2011, to discuss the Utility's failure to clean the percolation pond and was informed that, based on the outstanding condition in the operating permit, the Utility will be required to clean the pond as soon as possible. The Utility's request to include pro forma plant related to cleaning the pond, replacing air blowers at the wastewater plant, and having a videography made of the collection system is addressed in Issue 13.

Staff also reviewed the Commission's Customer Activity Tracking System for the past three years. While no complaints had been filed in the past three years, staff did find a complaint that was made in 2007 that was recently closed after repairs were made to a lift station and

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gravity lines near the customer's home. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 23, 2011 customer meeting.

Issue 2: What are the used and useful percentages of the wastewater treatment plant and the collection system?

Preliminary Recommendation: The wastewater treatment plant and the collection system should be considered 100 percent used and useful (U&U). (Simpson)

Staff Analysis: 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 is permitted by the 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 U&U percentage of a wastewater treatment plant is based on the plant flows, a growth allowance, less any excessive inflow and infiltration, 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 was found to be 100 percent U&U.

The S&L wastewater treatment plant three-month average daily flow during the test year was 16,133 gpd. There are no vacant lots in the service area and thus the system appears to be built out. Staff does not have sufficient data to determine whether there is excessive infiltration and inflow in the collection system. Staff recommends that the wastewater treatment plant and collection system are 100 percent U&U because the system is built out.

Issue 3: What is the appropriate average test year rate base for the Utility?

Preliminary Recommendation: The appropriate average test year rate base for S&L is \$23,484. (Roberts)

Staff Analysis: S&L's rate base was last established by Order No. 18394.⁵ Staff selected a test year ended December 31, 2010, 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. Staff recommends the following adjustments to the UPIS amount.

Table 3-1

<u>Adjustment Description</u>	<u>Wastewater</u>
1. To reflect the installation of new force main and pump to Acct. No. 360.	\$4,247
2. To reflect the rebuilding of line main and blower to Acct No. 382.	1,049
3. To reflect the installation of new motor and lift station pump to Acct. No. 360.	2,575
4. To reclassify the replacement and installation of new motors recorded as expense to Acct. No. 360.	2,265
5. To reclassify sewer tap recorded as expense to Acct. No. 365.	1,093
6. To reflect an averaging adjustment.	(1,679)
Total	<u>\$9,550</u>

Staff's net adjustment to UPIS should be increased by \$9,550. Staff recommends a UPIS balance of \$161,878.

Land & Land Rights: S&L recorded a test year land value of \$12,955. Staff has reduced the land value by \$12,955. In S&L's last rate case, the land value was reduced to zero because the Utility does not hold title to the land.⁶ In addition, because the land was contributed, the Utility does not have a long-term lease. Therefore, staff recommends a land value of \$0.

Non-used and Useful Plant: As discussed in Issue 2, S&L's wastewater treatment plant is built out and considered 100 percent U&U. Therefore, no adjustments are necessary.

Accumulated Depreciation: The Utility recorded a test year accumulated depreciation balance of \$134,728. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account was increased by \$10,954 to reflect depreciation calculated per staff. In addition, staff decreased this account by \$1,042 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation balance of \$144,641.

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., staff used the

⁵ 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.

⁶ See Order No. 18394, p. 5.

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one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$6,247 (based on O&M expense of \$49,975). Working capital has been increased by \$6,247 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$23,484. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity (ROE) is 9.82 percent with a range of 8.82 percent to 10.82 percent. The appropriate overall rate of return is 7.77 percent. (Roberts)

Staff Analysis: The Utility's capital structure consists of common equity of \$27,323 and long-term debt of \$20,230. The appropriate ROE is 9.82 percent using the Commission-approved leverage formula currently in effect.⁷ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 9.82 percent, with a range of 8.82 percent to 10.82 percent, and an overall rate of return of 7.77 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁷ See Order Nos. PSC-10-0401-PAA-WS, issued June 18, 2010, and PSC-10-0446-CO-WS, issued July 13, 2010, in Docket No. 100006-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.

Issue 5: What is the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenues for S&L are \$40,577.
(Roberts, Bruce)

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

Issue 6: What are the appropriate total operating expenses?

Preliminary Recommendation: The appropriate amount of total operating expenses for S&L is \$55,298. (Roberts)

Staff Analysis: 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. Staff made several adjustments 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 \$120 per week or \$6,240 annually. The Utility president works 8 hours a week attending to customer service and other administrative duties. Staff believes \$120 a week is a reasonable amount. Therefore, staff recommends officer salary expense of \$6,240.

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

Contractual Services - Other (636/736) – S&L recorded contractual services - other expense of \$4,248. Staff has made several adjustments to contractual services - other that relate to capitalizing plant additions, reclassifying expenses, and reflecting the appropriate office manager fee and increase in plant operator fee. The Utility has requested an office manager fee of \$300 per week or \$15,600 annually for Mr. Clark Yandel. Mr. Yandel works approximately 30 hours per week 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. Staff believes the office manager fee is reasonable for his duties.

During the test year, the Utility paid \$5,520 for plant operator services. The services were provided to S&L at a reduced cost. The Utility has since changed its operator services to U.S. Water. The fee for U.S. Water is \$720. Staff believes this amount is reasonable for the duties performed by U.S. Water. Therefore, staff has increased this account by \$3,120 to reflect the appropriate plant operator fee. In addition, staff recommends the following adjustments to this account:

Table 6-1

<u>Adjustment Description</u>	<u>Wastewater</u>
a. To capitalize plant recorded as expense to Acct. No. 360.	(\$1,559)
b. To capitalize sewer tap 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 office manager fee.	15,600
h. To reflect pro forma adjustment for increase plant operator fee.	<u>3,120</u>
Total	<u>\$25,199</u>

Based on staff's net adjustment of \$25,199, staff recommends contractual services – other expense of \$29,447.

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. The office space is 256 square feet (sq. feet). Staff believes the Utility's allocation should be based on the percentage of square feet occupied by S&L, which is approximately 12 percent (256 sq. feet / 2,100 sq. feet). The monthly cost related to the mortgage and electricity is \$1,365. The Utility's allocation of 12 percent of the monthly cost is \$164 monthly or \$1,966, annually. Staff recommends rent expense of \$1,966.

Insurance Expense (655/755) – The Utility recorded insurance expense of \$819. Staff decreased this expense by \$819 to remove a non-utility insurance expense related to the personal residence of the Utility president. Therefore, staff recommends insurance expense of \$0.

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 four-year period. The Utility is required by Rule 25-22.0407(9) (b), F.A.C., to mail notices of the customer meeting in this case to its customers. Staff has estimated noticing expense of \$67 for postage expense, \$53 for printing expense, and \$8 for envelopes. 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 four-year amortization of \$82. Staff has increased this account by \$82 (\$328/4). Staff recommends regulatory commission expense for the test year of \$82.

Miscellaneous Expense (675/775) – S&L recorded miscellaneous expense of \$7,642. Staff recommends the following adjustments.

Table 6-2

<u>Adjustment Description</u>	<u>Wastewater</u>
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 40% allocation to Utility for phone service.	(1,015)
f. To reclassify license fees to taxes other than income.	(300)
g. To reflect cost for postage and postcards for billing.	260
Total	<u>(\$5,805)</u>

Based on staff's net adjustment of \$5,805, staff recommends a miscellaneous expense balance of \$1,837.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$22,474. Staff's recommended adjustments to O&M expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated depreciation expense is \$1,719. S&L has no amortization of CIAC. Therefore, staff recommends net depreciation expense of \$1,719.

Taxes Other Than Income (TOTI) – S&L recorded a TOTI balance of \$1,697. Staff has increased TOTI by \$113 to reflect the appropriate property taxes. In addition, staff has increased TOTI by \$477 to reflect the appropriate payroll taxes associated with the president's salary. In addition, staff reclassified the license fee of \$300 from miscellaneous expense to TOTI. Furthermore, staff has increased TOTI by \$129 ($40,577 \times 4.5\% - \$1,697$) to reflect the appropriate RAFs for the test year revenues recommended in Issue 5. As discussed in Issue 7, revenues have been increased by \$19,718 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, TOTI should be increased by \$887 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$3,605.

Income Tax – The Utility recorded income tax of \$0. S&L is a 1120 C 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 couple of years. Therefore, staff has not made an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to S&L's test year operating expenses result in operating expenses of \$55,298. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for S&L, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the revenue requirement for S&L. The margin should be 10 percent of operation and maintenance expenses. (Roberts)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission 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 staff assisted rate case 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 the Commission for staff assistance in alternative rate setting.

Although S&L did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its 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, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.⁸ This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.⁹ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.¹⁰

In Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are 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. Based on the staff audit, the adjusted rate base for the test year is \$23,533, while adjusted O&M expenses are \$50,366.
- 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

⁸ 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.

⁹ 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.

¹⁰ 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.

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 recommended revenue requirement of \$60,295 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. Staff's has not made a determination of the Utility's quality of service. The quality of service was found unsatisfactory in the Utility's last rate case.¹¹ S&L still has an outstanding compliance issue with DEP. Staff does not believe the Utility should 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, the Commission 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 should 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, the Commission applied 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 \$1,011. The Utility's return on rate base results in \$1,828 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 should adequately compensate the utility owner for that risk. Under the rate base method, the return to S&L amounts to only \$1,828 which is enough to cover only a 4 percent variance in O&M expenses. Staff believes \$1,828 is an insufficient financial cushion.

¹¹ 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.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from staff's estimates, S&L could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide the Utility only \$1,828. After deducting interest expense, S&L would only have \$817 of operating income to cover revenue and expense variances. If the Utility's operating expenses increase, S&L would not have the funds required for day-to-day operations.

In conclusion, staff believes 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 allow. 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, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expenses.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$60,295. (Roberts)

Staff Analysis: S&L should be allowed an annual increase of \$19,718 (48.60 percent). This will allow the Utility the opportunity to recover its expenses and earn a 10.00 percent return on its investment. The calculations are as follows:

Table 8-1

Adjusted O&M Expenses	\$49,975
Rate of Return/Operating Margin	10.00%
Operating Margin	\$4,997
Adjusted O & M Expense	49,975
Depreciation expense (Net)	1,719
Amortization	0
Taxes Other Than Income	3,605
Income Tax	0
Revenue Requirement	\$60,295
Less Adjusted Test Year Revenues	\$40,577
Annual Increase	\$19,718
Percent Increase/(Decrease)	48.60%

Issue 9: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Preliminary Recommendation: The wastewater rates should 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 should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should 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 should 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. (Roberts)

Staff Analysis: 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 return in working capital, and the gross-up for RAFs which is \$87. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in rate decreases as shown on Schedule No. 4.

S&L should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If S&L files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should 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.

Issue 10: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Preliminary Recommendation: Yes. The Utility's request for a Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should 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 should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days after the date of the notice. (Roberts)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. S&L has requested an NSF fee in accordance with Section 832.08(5), F.S.

Staff believes that S&L should be authorized to collect an NSF fee. Staff believes the NSF fee should 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. As currently set forth in Sections 68.065(2) and 832.08(5), 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.

Approval of an NSF fee properly assigns costs to the cost causer and is consistent with prior Commission decisions.¹² As such, staff recommends that S&L's proposed NSF fee be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

¹² 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 p.20; 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-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.

Issue 11: What are the appropriate rates for this Utility?

Preliminary Recommendation: The recommended rates should be designed to produce revenue of \$60,001 for wastewater, excluding miscellaneous service charges. The Utility's current wastewater rate structure which consists of a flat rate should remain unchanged. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

Staff Analysis: Staff's recommended revenue requirement is \$60,295. However, after excluding miscellaneous service revenues of \$294, the revenue to be recovered through rates is \$60,001. The Utility's current wastewater system rate structure consists of a flat rate structure. The Utility's flat rate is \$44.17 per month for residential service. The Commission's preferred wastewater rate structure is a base facility charge (BFC)/uniform rate structure. However, the Utility purchases its water service from Marion County. Commission policy has been to allow the use of flat rate for wastewater service in situations where metered water consumption is not possible. For this reason, staff recommends a continuation of the flat rate structure.

Since metered consumption is not available, staff recommends the revenue requirement increase 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 should be removed from the test year revenues.

Table 11-1

	<u>Wastewater</u>
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>19,718</u>
5. % Service Rate Increase (Line 4/Line3)	<u>48.94%</u>

Therefore, the across-the-board increase of 48.94 percent should be applied to the Utility's current flat rate. This results in a flat rate charge of \$65.79.

Furthermore, as discussed in Issue 13, staff recommends a Phase II revenue requirement associated with proforma plant improvements. Also, staff recommends that the Phase II revenue requirement increase of 7.34 percent be applied as an across-the-board increase to the wastewater system's flat rate.

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The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

A comparison of the Utility's prior rates to filing and staff's recommended rates are shown on Schedule No. 4.

Issue 12: Should the utility be authorized to collect late payment fees, and if so what are the appropriate charges?

Preliminary Recommendation: Yes. S&L should be authorized to collect a \$5.00 late fee. The Utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed. (Roberts)

Staff Analysis: S&L is not currently authorized to collect late payment charges. The Utility requested to implement a late payment charge. Staff believes that 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. The Commission has approved late fees in the amount of \$5.00.¹³ Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission found that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit.¹⁴ In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers. Staff believes that 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.

Staff believes there is a need for this incentive. A late payment charge of \$5 is consistent with prior Commission practice 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. It appears that the majority of utilities that have Commission-approved late fees charge \$5.00. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Staff believes that \$5.00 is a reasonable fee for S&L.

Therefore, staff recommends that, consistent with the orders cited above, a \$5.00 late payment should be approved. The Utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff

¹³ 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.

¹⁴ 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.

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sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved pursuant to Rule 25-30.475, F.A.C., the late payment charge should become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been properly noticed.

Issue 13: Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and date for implementing the new rates?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. S&L's appropriate return on equity should be 10.85 percent with a range of 9.85 to 11.85 percent. The appropriate overall rate of return is 7.08 percent. The Utility's Phase II revenue requirement is \$64,720 which equates to an increase of 14.13 percent over the Phase I revenue requirement. S&L should complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should 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 should 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 should not be implemented until notice has been received by the customers. S&L should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission. (Roberts, Simpson)

Staff Analysis: 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 staff's recommended treatment:

Table 13-1

	<u>Pro forma Plant Items</u>	<u>Utility Requested</u>	<u>Staff Recommended</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	5,000	5,000
	Total	<u>\$55,997</u>	<u>\$55,997</u>

S&L is required by DEP to clean its pond before the Utility can renew its 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 to identify potential infiltration and inflow problems. The estimated costs appear reasonable. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant and expense items. These pro forma items will increase reliability and ensure continual service to the customers.

Staff is recommending a Phase II revenue requirement associated with the pro forma plant items for several of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investments in rates. In the past, there have been instances when the Commission approved revenue requirements with pro forma items only to have the utility in question fail to complete the pro forma investments. If the Utility fails to complete the items or

if the cost of the items is lower than the estimated cost, staff will recommend that the case be brought before the Commission to address the differences. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customer because the Utility would not need to file another rate case or limited proceeding to seek recovery for these investments. The Commission has approved a Phase-In approach in Docket Nos. 080668-SU and 090072-WU.¹⁵

The Utility's Phase II revenue requirement should be \$64,720. S&L should complete the pro forma items within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

The Utility should be allowed to implement the above rates once all pro forma items have been completed and provide documentation showing improvements have been made to the system. The Utility requested that the cost associated with cleaning the percolation pond, replacing air blowers at the wastewater plant, and having a videography made of the collection system. The estimated costs appear reasonable. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant and expense items. In addition, the Utility should be required to submit documentation from a professional engineer indicating that the pro forma items have been complete and are in compliance. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. S&L should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission.

¹⁵ 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 re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

Issue 14: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. S&L should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's 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 should also indicate the status of the security being used to guarantee repayment of any potential refund. (Roberts)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. S&L should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an *appropriate security for the potential refund and the proposed customer notice*. Security should be in the form of a bond or letter of credit in the amount of \$14,811. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should 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 should contain the following conditions:

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

If security is provided through an escrow agreement, the following conditions should 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 should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total

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amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 15: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission-approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, S&L should 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. (Roberts)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, S&L should 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.

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	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$152,328	\$9,550	\$161,878
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)	(9,913)	(144,641)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,247</u>	<u>6,247</u>
WASTEWATER RATE BASE	<u>\$30,555</u>	<u>(\$7,071)</u>	<u>\$23,484</u>

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

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

UTILITY PLANT IN SERVICE

1.	To reflect 2008 plant additions to Acct. No. 360.	\$4,247
2.	To reflect 2009 plant additions to Acct. No. 382.	1,049
3.	To reflect 2009 plant additions to Acct. No. 360.	2,575
4.	To reclassify plant recorded as expense to Acct. No. 360.	2,265
5.	To reclassify plant recorded as expense to Acct. No. 365.	1,093
6.	To reflect an averaging adjustment.	<u>(1,679)</u>
	Total	<u>\$9,550</u>

LAND AND LAND RIGHTS

	To adjust allocated plant for change in ERCs and allocate to WW (AF 3).	<u>(\$12,955)</u>
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ACCUMULATED DEPRECIATION

1.	To reflect accumulated depreciation per Rule 25-30.0140.	(\$10,954)
2.	To reflect averaging adjustment.	1,042
	Total	<u>(\$9,913)</u>

WORKING CAPITAL ALLOWANCE

	To reflect 1/8 of test year O & M expenses.	<u>\$6,247</u>
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S & L UTILITIES, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/10							DOCKET NO. 100471-SU		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. Common Stock	\$1,000	\$0	\$1,000						
2. Retained Earnings	<u>37,710</u>	<u>(11,387)</u>	<u>26,323</u>						
Total Common Equity	\$38,710	(\$11,387)	\$27,323	(\$13,829)	\$13,494	57.46%	9.82%		5.64%
3. Total Long - Term Debt	<u>(21,384)</u>	<u>41,614</u>	<u>20,230</u>	<u>(10,239)</u>	<u>9,991</u>	<u>42.54%</u>	5.00%		<u>2.13%</u>
4. Total	<u>\$17,326</u>	<u>\$30,227</u>	<u>\$47,553</u>	<u>(\$24,069)</u>	<u>\$23,484</u>	<u>100.00%</u>			<u>7.77%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>8.82%</u>	<u>10.82%</u>		
OVERALL RATE OF RETURN						<u>7.19%</u>	<u>8.34%</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	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$35,650	\$4,927	\$40,577	\$19,718 48.60%	\$60,295
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$27,501	\$22,464	\$49,975	0	\$49,975
3. DEPRECIATION (NET)	0	1,719	1,719	0	1,719
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,697	1,020	2,717	887	3,605
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$29,198	\$25,213	\$54,411	\$887	\$55,298
8. OPERATING INCOME/(LOSS)	\$6,452		(\$13,834)		\$4,997
9. WASTEWATER RATE BASE	\$30,555		\$23,484		\$23,584
10. RATE OF RETURN	21.12%		-58.91%		10.00%

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

SCHEDULE NO. 3-B
DOCKET NO. 100471-SU
 Page 1 of 2

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

1. Salaries and Wages - Officers (710)	
a. To reflect the appropriate officer's salary.	<u>\$6,240</u>
2. 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>
3. 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.	15,600
h. To reflect pro forma adjustment for increase operator fee.	<u>3,120</u>
	<u>\$25,199</u>
4. Rent Expense (640/ 740)	
a. To reflect appropriate office expense.	<u>\$1,966</u>
5. Insurance Expenses (655/ 755)	
a. To remove personal homeowner insurance.	<u>(\$819)</u>
6. Regulatory Expense (665/ 765)	
a. Amortize Rate Case Filing Fee over 4 years (\$200/4-200).	<u>\$82</u>
b. Include and amortize notice expense over 4 years.	

O & M 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
(O & M EXPENSES CONTINUED)	
7. 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 40% allocation to Utility for phone service.	(1,015)
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>(\$5,805)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$22,464</u>
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$1,719</u>
TAXES OTHER THAN INCOME	
1. Adjust RAF's to Projected Revenue (AF 7).	\$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	STAFF ADJUST- MENT	TOTAL PER STAFF
(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	25,199	29,447
(740) RENTS	0	1,966	1,966
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	819	(819)	(0)
(765) REGULATORY COMMISSION EXPENSES	0	82	82
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>7,642</u>	<u>(5,805)</u>	<u>1,837</u>
	<u>27,501</u>	<u>\$22,474</u>	<u>\$49,975</u>

Docket No. 100471-SU
Date: May 31, 2011

S & L UTILITIES, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Flat Rate	\$44.17	\$65.79	\$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	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$161,878	\$55,997	\$217,875
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(100,088)	0	(100,088)
ACCUMULATED DEPRECIATION	(144,641)	(1,867)	(147,504)
AMORTIZATION OF CIAC	100,088	0	100,088
WORKING CAPITAL ALLOWANCE	<u>6,296</u>	<u>0</u>	<u>6,247</u>
WASTEWATER RATE BASE	<u>\$23,533</u>	<u>\$54,130</u>	<u>\$77,614</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

PAGE 1 OF 1

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>(\$1,867)</u>
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S & L UTILITIES, INC.							SCHEDULE NO. 6	
TEST YEAR ENDED 12/31/10							DOCKET NO. 100471-SU	
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. Common Stock	\$1,000	\$0	\$1,000					
2. Retained Earnings	<u>37,710</u>	<u>(11,387)</u>	<u>26,323</u>					
Total Common Equity	\$38,710	(\$11,387)	\$27,323	(\$6,843)	\$20,480	26.39%	10.85%	2.86%
3. Long Term Debt	(\$21,384)	\$41,614	\$20,230	(\$5,067)	\$15,163	19.54%	5.00%	0.98%
4. Loan For Pro Forma	<u>55,997</u>	<u>0</u>	<u>55,997</u>	<u>(14,025)</u>	<u>41,972</u>	<u>54.08%</u>	<u>6.00%</u>	<u>3.24%</u>
Total Long Term Debt	34,613	41,614	76,227	(19,092)	57,135	73.61%		
5. Total	<u>\$73,323</u>	<u>\$30,227</u>	<u>\$103,550</u>	<u>(\$25,936)</u>	<u>\$77,614</u>	<u>100.00%</u>		<u>7.08%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.85%</u>	<u>11.85%</u>	
OVERALL RATE OF RETURN						<u>6.82%</u>	<u>7.35%</u>	

S & L UTILITIES, INC.		SCHEDULE NO. 7-			
TEST YEAR ENDED 12/31/10		A			
SCHEDULE OF WASTEWATER OPERATING INCOME (PHASE II)		DOCKET NO. 100471-SU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$60,295</u>	<u>\$0</u>	<u>\$60,295</u>	<u>\$4,425</u> 7.34%	<u>\$64,720</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$49,975	\$0	\$49,975	0	49,975
DEPRECIATION (NET)	1,719	3,728	5,447	0	5,447
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	3,605	0	3,605	199	3,804
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$55,298</u>	<u>\$3,728</u>	<u>\$59,026</u>	<u>\$199</u>	<u>\$59,225</u>
OPERATING INCOME/(LOSS)	<u>\$4,997</u>		<u>\$1,269</u>		<u>\$5,495</u>
WASTEWATER RATE BASE	<u>\$23,484</u>		<u>\$77,614</u>		<u>\$77,614</u>
RATE OF RETURN	<u>10.00%</u>		<u>1.64%</u>		<u>7.08%</u>

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

SCHEDULE NO. 7-B
DOCKET NO. 100471-SU
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DEPRECIATION EXPENSE

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

\$3,728

S & L UTILITIES, INC.		SCHEDULE NO. 8	
TEST YEAR ENDED 12/31/10		DOCKET NO. 100471-SU	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	
<u>Residential Service</u>			
Flat Rate	\$66.12	\$70.64	