

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Manatee County by Heather Hills Estates
Utilities LLC.

DOCKET NO. 100472-WS
ORDER NO. PSC-11-0436-PAA-WS
ISSUED: September 29, 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 A 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

Heather Hills Estates Utilities, LLC (Heather Hills or Utility) is a Class C water and wastewater utility serving approximately 354 water and wastewater customers in Manatee County. On August 16, 2010, the Commission approved a transfer of Certificate Nos. 577-W and 498-S from Keith & Clara Starkey d/b/a Heather Hills Estates to Heather Hills Estates Utilities, LLC.¹

Heather Hills' rates were last established in 1997.² The Utility's 2010 Annual Report indicates that the Utility's operating revenue was \$48,523 for the water system and \$73,774 for the wastewater system. The Utility had net operating losses of \$1,568 and \$5,308 for water and wastewater, respectively.

¹ See Order No. PSC-10-0519-FOF-WS, issued August 16, 2010, in Docket No. 090093-WS, In re: Application for approval of transfer of Keith & Clara Starkey d/b/a Heather Hills Estates' water and wastewater utility, holder of Certificates 577-W and 498-S, to Heather Hills Estates Utilities, LLC, in Manatee County.

² See Order No. PSC-97-0233-FOF-WS, issued February 26, 1997, in Docket No. 960814-WS, In re: Investigation of possible overearnings in Manatee County by Keith & Clara Starkey d/b/a Heather Hills Estates.

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FPSC-COMMISSION CLERK

We have authority to consider this rate case pursuant to Section 367.0814, F.S.

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service provided by a utility by evaluating three separate components of water 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 from customers are also reviewed. The Utility's compliance with the Manatee County Health Department (MCHD) is also considered.

Heather Hills is a consecutive system that purchases bulk water and wastewater service from Manatee County Utilities for resale to its customers. The Utility does not own or operate any treatment facilities. Heather Hills maintains and operates the water distribution and wastewater collection systems and files monthly operating reports with the MCHD. The MCHD conducts periodic inspections of the water distribution system. The most recent inspection report from the MCHD, dated December 13, 2010, indicated that the Utility was substantially compliant with all regulations and requirements.

Heather Hills recently replaced the water meters and installed isolation valves throughout the distribution system to help the Utility operate more efficiently by allowing portions of the distribution system to be isolated as needed for repairs. Heather Hills requested that the cost of the improvements completed after the test year be included as pro forma plant additions.

A customer meeting was held on June 30, 2011, in Bradenton, Florida. Approximately 30 customers attended the meeting and 4 customers commented. The customers spoke in opposition to the rate case, and questioned the financial information used as part of the proceeding. Two of the customers questioned several aspects of the Utility operations and how they related to other non-Utility operations. A customer also spoke about the negative impact that increased rates would have on the residents because many of the residents are elderly and on a fixed income. Two customers expressed dissatisfaction with the Utility's procedure for providing boil water notices and the general relationship between customers and utility personnel. One customer stated that the service quality has improved because of increased water quality testing and the meter and isolation valve replacements.

A review of all customer complaints received on our complaint activity tracking system in the last three years revealed two billing complaints. Both complaints were subsequently resolved. Our staff also reviewed customer complaints filed with the Utility during the test year. It appears that all of the complaints filed with the Utility were resolved in a timely manner. Nine customers sent letters expressing their opposition to the proposed rate increase and two customers submitted letters in support of the increase.

Heather Hills is in compliance with all applicable standards and regulations regarding its water quality and water and wastewater operations. The most recent inspection performed by the

MCHD did not identify any major compliance violations. Therefore, the quality of the product and the operating condition of the Utility's facilities shall be considered satisfactory. Although there are comments from the customers in opposition to the proposed rate increase, the Utility appears to be addressing customer complaints and customer concerns in an appropriate manner. Therefore, we find the Utility's attempt to address customer satisfaction is satisfactory. Accordingly, we find the overall quality of service provided by the Utility is satisfactory.

USED AND USEFUL

Heather Hills serves a mobile home park that was built in 1967. The service territory is built out, with no growth occurring over the past 5 years. Therefore, we find that both Heather Hills water distribution and wastewater collection systems are 100 percent U&U.

According to a comparison of the water purchased versus the water sold, the Utility had 2.06 percent excessive unaccounted for water (EUW) during the test year. However, the Utility has replaced the majority of the older water meters throughout the system with newer, more accurate meters, and as a result, pursuant to Rule 25-30.4325(1)(e), F.A.C., the amount of unaccounted for water has decreased to less than ten percent of the water purchased. Therefore, we find no adjustment shall be made to chemicals and electricity for EUW. However, as discussed further, we adjusted the billing determinants to reflect higher usage recorded by the new meters. Because the amount of wastewater treated by Manatee County Utilities on behalf of Heather Hills is not measured, we are unable to calculate whether there is excessive infiltration and inflow and thus find no adjustment.

RATE BASE

The water and wastewater rate bases for Heather Hills were last established by Order No. PSC-96-1126-FOF-WS.³ We selected a test year ended December 31, 2010, for this rate case. A summary of each component and the approved adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS balances of \$90,326 for water and \$74,508 for wastewater. The adjustments relate to adjusting the UPIS balance to the Commission-approved balance; recording plant additions based on invoices; capitalizing plant recorded as expenses; and removing capitalized items that should have been expensed. Also, Heather Hills completed certain pro forma plant additions outside of the test year. The Utility replaced all of its gate valves and yard hydrants. The total cost for the pro forma plant additions is \$12,294. We find the cost of the pro forma plant additions is reasonable and prudent. Therefore, we find that UPIS be increased to reflect the pro forma plant additions. The following adjustments to the water and wastewater UPIS amounts are provided below.

Table 3-1			
		WATER	WASTEWATER
	<u>UTILITY PLANT IN SERVICE</u>		

³ See Order No. PSC-96-1126-FOF-WS, issued September 5, 1996, in Docket No. 960814-WS, In re: Investigation of possible overearnings in Manatee County by Keith & Clara Starkey d/b/a Heather Hills Estates.

1.	To reflect correct balance per Order No. PSC-96-1126-FOF-WS.	\$250	\$250
2.	To record a 2009 plant addition to Account No. 331.	75	0
3.	To capitalize mains recorded in contractual services.	2,520	0
4.	To capitalize valves recorded in miscellaneous expense.	461	0
5.	To record valves purchased.	89	0
6.	To reflect the correct replacement cost of mains.	(13,634)	0
7.	To record meter installations for 2009.	290	0
8.	To record van purchased in 2009.	1,500	1,500
9.	To reflect the appropriate balance for office equipment.	(1,522)	(1,522)
10.	To capitalize meters recorded in purchased water expense.	190	0
11.	To remove expenses capitalize to meter and meter installations.	(750)	0
12.	To reflect an averaging adjustment.	(10,325)	(910)
13.	To reflect pro forma plant additions.	12,294	0
	Total	(\$8,562)	(\$682)

Our net adjustments to UPIS are decreases of \$8,562 for water and \$682 for wastewater. Therefore, the UPIS balance is \$81,764 for water and \$73,826 for wastewater.

Non-used and Useful Plant: Heather Hills' water distribution and wastewater collection systems are 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$45,989 for water and \$72,836 for wastewater. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Our calculated accumulated depreciation is \$32,250 for water and \$72,732 for wastewater. As a result, we decreased accumulated depreciation by \$13,739 for water and \$104 for wastewater. In addition, we decreased accumulated depreciation by \$1,035 for water and increased the amount for wastewater by \$93 to reflect averaging adjustments. Also, we increased accumulated depreciation by \$606 for the water pro forma plant additions. These adjustments result in accumulated depreciation of \$31,821 and \$72,825 for water and wastewater, respectively.

Acquisition Adjustment: The Utility recorded an acquisition adjustment of \$99,587 for water. The Utility recorded the adjustment to reflect the difference in the purchase price of \$123,123 and the net book value of the Utility's assets of \$23,536 (\$23,147 water and \$389 wastewater) as of December 31, 2008. In the Utility's transfer docket, the Commission ordered that there be no acquisition adjustment.⁴ Therefore, we removed the Utility's acquisition adjustment of \$99,587.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., we find it appropriate that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula,

⁴ See Order No. PSC-10-0519-FOF-WS, issued August 16, 2010, in Docket No. 090093, In re: Application for approval of transfer of Keith & Clara Starkey d/b/a Heather Hills Estates' water and wastewater utility, holder of Certificates 577-W and 498-S, to Heather Hills Estates Utilities, LLC, in Manatee County.

working capital allowances are \$5,774 for water and \$10,147 for wastewater (based on O&M expense of \$46,194 for water and \$81,178 for wastewater).

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$56,106 for water and \$11,537 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

RATE OF RETURN

The Utility's capital structure consists of common equity of \$9,695 and long-term debt of \$57,632. The appropriate ROE is 11.16 percent using the Commission-approved leverage formula currently in effect.⁵ The Utility's capital structure has been reconciled with our approved rate base. The ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 4.62 percent. The ROE and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

Heather Hills recorded total revenue of \$47,545 for water and \$71,929 for wastewater. We annualized revenues based on test year billing determinants and existing rates and calculated revenues of \$47,683 for water and \$72,102 for wastewater. We increased test year revenues by \$138 for water and \$173 for wastewater. We find that the appropriate test year revenues are \$47,683 and \$72,102 for water and wastewater, respectively. Water and wastewater test year revenues are shown on Schedule Nos. 3-A and 3-B, respectively.

OPERATING EXPENSES

Heather Hills recorded operating expenses of \$49,113 for water and \$77,238 for wastewater 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. We made several adjustments to the Utility's operating expenses, as summarized below:

Purchased Water/Purchased Wastewater (610/710) – Heather Hills recorded \$24,411 for purchased water and \$59,727 for purchased wastewater treatment. We made several adjustments to the purchased water account that relate to reversing a Utility journal entry, reclassifying expenses, capitalizing plant additions, removing non-Utility expenses, and correcting Utility adjustments. Heather Hills' purchases water and wastewater treatment from Manatee County. Manatee County increased its rates effective January 15, 2011. In addition, Manatee County changed the formula for billing the Utility for wastewater treatment. For years, Manatee County billed the Utility for wastewater treatment based on 85 percent of water consumption. However, Manatee County now charges the Utility for wastewater treatment based on 100 percent of the

⁵ 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.

water consumption. We calculated the adjustment to reflect the increase in rates as well as the billing change. We find the following adjustments to purchased water and purchased wastewater.

Table 6-1		
	<u>WATER</u>	<u>WASTEWATER</u>
1. To reverse the Utility's journal entry.	\$1,897	\$0
2. To remove testing already recorded in testing expenses.	(1,063)	0
3. To reclassify wastewater testing expense.	(52)	0
4. To remove a non-Utility expense.	(146)	0
5. To capitalized labor for meter installation.	(190)	0
6. To reclassify to meter reading expense.	(240)	0
7. To reclassify to chemical expense.	(352)	0
8. To correct Utility's recording of NSF check.	25	0
9. To correct the Utility's erroneous credit.	58	0
10. To reflect increase in rates and billing change by Manatee County.	<u>974</u>	<u>\$4,067</u>
Total	<u>\$911</u>	<u>\$4,067</u>

The net result of our adjustments to purchased water is a decrease of \$911. For purchased wastewater, the adjustment is an increase of \$4,067. Based on the above, the appropriate purchased water/purchased wastewater expenses is \$25,322 for water and \$63,794 for wastewater.

Chemicals (718) – Heather Hills recorded \$0 in this account. We increased this account by \$352 for wastewater to reclassify chemical expenses from purchased water. Therefore, the appropriate chemical expense is \$352.

Contractual Services – Billing (630/730) – The Utility recorded \$0 of billing expense for both water and wastewater. We reclassified \$240 of meter reading cost from purchased water expense and increased billing expense for both water and wastewater by \$120 each. Also, we increased billing expense for both water and wastewater by \$120 to reflect a separate \$240 of meter reading expense reclassified from plant. Based on the above, the total approved contractual services – billing is \$240 each for water and wastewater.

Contractual Services – Professional (631/731) – Heather Hills recorded contractual services – professional expense of \$1,803 for both water and wastewater. The amount recorded in this account reflects \$200 of rate case expense related to the Utility's transfer application. We reclassified the rate case expense to regulatory commission expense. We decreased this expense for both water and wastewater by \$100. Therefore, the contractual services – professional is \$1,703 for both water and wastewater.

Contractual Services – Testing (635/735) – Heather Hills recorded \$1,063 and \$0 for testing of water and wastewater, respectively. We increased wastewater testing by \$52 to reflect testing expense reclassified from purchased water. Also, we increased wastewater testing by \$15 to

reflect testing paid for by the homeowner's association. Based on the above, the appropriate testing expense is \$1,063 for water and \$67 for wastewater.

Contractual Services – Other (636/736) – The Utility recorded \$12,688 and \$7,779 for contractual services – other for water and wastewater, respectively. The amount in this account included management fees of \$7,250 for both water and wastewater. The Utility owners, Mr. and Mrs. Stephens, charge an annual management fee of \$18,000 to Heather Hills. Mr. Stephens is responsible for the following functions: providing oversight of all contract labor; assisting with meter reading; conducting meter shut-offs and turn-ons; posting notices at customer premises; resolving customer complaints, testing the water; transporting water samples to test lab; and providing on-call services for emergencies 24 hours a day for seven days per week. Mrs. Stephens is responsible for the following functions: processing 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; making the deposits at the bank; and preparing late notices. Based on the above, we calculated the management fee of \$18,000 is supported by the duties performed by the Utility owners. Additionally, we increased this account by \$1,750 for both water and wastewater to reflect the appropriate management fee of \$9,000 for each system.

In addition to the management fee adjustment, we adjusted this account to capitalize plant recorded as expense, reclassify expenses, remove out-of-period expense, remove non-Utility expenses, and reverse a Utility journal entry. We find the following adjustments to miscellaneous expense.

	WATER	WASTEWATER
1. To reflect the appropriate management fee.	\$1,750	\$1,750
2. To capitalize plant recorded as an expense.	(2,520)	0
3. To remove an out-of-period expense.	(199)	0
4. To reclassify to miscellaneous expense	(46)	0
5. To remove non-Utility expense.	(49)	(50)
6. To reclassify to miscellaneous expense for computers.	(375)	(375)
7. To remove non-Utility expense.	(74)	(74)
8. To reclassify from miscellaneous for repairs	804	0
9. To reverse the Utility's journal entry.	(834)	0
10. To reclassify repair cost from meter and meter installation.	490	0
Total	<u>(\$1,053)</u>	<u>\$1,251</u>

The net results of our adjustments to contractual services – other are a decrease of \$1,053 for water and an increase of \$1,251 for wastewater. Therefore, the total approved contractual services – other expense is \$11,635 for water and \$9,030 for wastewater.

Rents (640/740) – Heather Hills recorded rent expense of \$1,000 for both water and wastewater. The Utility leases office space from Heather Hills Estates, a related party, at \$400 per month or \$4,800 annually. The rental fee includes electric, telephone and water service and the use of

office equipment and furniture. In the Utility's last rate proceeding, it was determined that the office area was 650 square feet (sq. ft.) of which 32.8 percent or 213.2 sq. ft. was allocated to the Utility.⁶ The office space has remained unchanged since that time. We used the Manatee Economic Development Council's website to determine a reasonable office space cost per sq. ft. We used the average cost per sq. ft. of seven properties that are within three miles of Heather Hills' office space. The average cost per sq. ft. for these properties was \$12.47 per sq. ft. We calculated \$2,658 ($\12.47×213.2) for the office space.

As mentioned previously, the rental fee includes the Utility's share of electric and telephone service. Based on electric bills and telephone bills provided by the Utility, the average monthly bill for electric is \$400 and telephone is \$150. At the 32.8 percent allocation, Heather Hills' electric allocation is \$131 monthly or \$1,572 annually and the telephone allocation is \$49 monthly or \$590 annually. This results in a rental fee of \$4,820 ($\$2,658 + \$1,572 + \590) for office space. Our calculation did not include any provision for the use of water, office equipment, and furniture, which are also included in the rental fee. Our calculated fee with only the office space, electric, and telephone is already more than the \$4,800 requested by the Utility. As a result, we find the amount requested by the Utility is reasonable. We increased this account for both water and wastewater by \$1,400 to reflect the appropriate rent expense. Thus, the total approved rent expense is \$2,400 for both water and wastewater.

Transportation Expense (650/750) – The Utility recorded \$1,003 for transportation expense for both water and wastewater. Transportation expense included \$1,202 for the purchase of tires. Since the purchase of tires is non-recurring, we amortized the cost over five years. The 5-year amortization is \$240 ($\$1,202/5$). We reduced transportation by \$961 or \$480 for water and \$481 for wastewater. Heather Hills paid \$273 for an automobile repair. We increased transportation expense by \$137 for both water and wastewater. Also, we decreased both water and wastewater by \$151 to reclassify office supplies to miscellaneous expense. Therefore the total approved transportation expense is \$509 for both water and wastewater.

Insurance Expense (655/755) – The Utility recorded \$0 for insurance expense for both water and wastewater. Heather Hills owns a 2003 Ford Econoline Van. The automobile insurance premium is \$763, annually. We increased water by \$382 and wastewater by \$381 to reflect the appropriate automobile insurance. Based on the above, the total approved insurance expense is \$382 for water and \$381 for wastewater.

Regulatory Commission Expense (665/765) – The Utility did not record any regulatory commission expense for water or wastewater. Heather Hills is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For noticing, we estimated \$312 for postage expense, \$247 for printing expense, and \$36 for envelopes. This results in \$595 for the noticing requirement. The Utility paid a \$2,000 rate case filing fee. Heather Hills also paid \$200 of rate case expense during its transfer docket. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, total rate case expense of \$2,795 ($\$595 + \$2,000 + \200), which amortized over

⁶ See Order No. PSC-96-1126-FOF-WS, p. 9

four years is \$699. The rate case expense shall be split equally between water and wastewater. Therefore, regulatory commission expense is \$350 for both water and wastewater.

Bad Debt Expense (670/770) – The Utility did not record any water or wastewater bad debt expense for the test year. Our audit revealed \$661 in accounts over 120 days old which we viewed as uncollectible. We find the bad debt expense incurred by Heather Hills is reasonable. Therefore, the total approved water bad debt expense is \$278 and wastewater bad debt expense of \$382, based on the Utility’s actual bad debt experience.

Miscellaneous Expense (675/775) – The Utility recorded \$2,829 and \$2,490 of miscellaneous expense for water and wastewater, respectively. Our adjustments to miscellaneous expense relate to reversing Utility adjustments, reclassifying expenses, capitalizing plant additions, recording documented expenses, and removing non-Utility and unsupported expenses. We find the following adjustments to miscellaneous expense.

Table 6-3		
	<u>WATER</u>	<u>WASTEWATER</u>
1. To reverse Utility's journal entry.	\$1,824	\$1,824
2. To reverse the incorrect recording of NSF check.	(54)	(54)
3. To reclassify office expenses from contractual services-other.	23	23
4. To reclassify office expenses from contractual services-other.	375	375
5. To reclassify office supplies from transportation expense.	151	151
6. To capitalize computer equipment.	(724)	(724)
7. To remove non-Utility allocation of computer equipment.	(362)	(362)
8. To reclassify repairs to contractual services-other.	(402)	(402)
9. To remove non-Utility expense.	(18)	0
10. To record FL Department of State filing fee.	70	70
11. To reclassify from meters and meter installation.	20	0
12. To capitalize valves.	(231)	(231)
13. To reflect miscellaneous expense incurred.	137	137
14. To remove unsupported expenses.	(1,300)	(1,300)
15. To remove non-Utility expense.	(26)	(26)
Total	<u>(\$517)</u>	<u>(\$519)</u>

The net result of our adjustments to miscellaneous expense is decreases of \$517 and \$519 for water and wastewater, respectively. Based on the above, the total approved miscellaneous expense is \$2,312 for water and \$1,971 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense shall be increased by \$1,397 for water and \$7,375 for wastewater. The total approved O&M expenses is \$46,194 for water and \$81,178 for wastewater. Our approved O&M expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – Heather Hills recorded \$2,176 for water and \$198 for wastewater in this account. We calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We calculated test year depreciation expense of \$2,931 and \$371 for water and wastewater, respectively. As a result, we made adjustments to increase this expense for water and wastewater by \$755 and \$173, respectively. Also, we increased water depreciation expense by \$606 for the pro forma plant additions. The water CIAC is fully amortized, and there is no wastewater CIAC. Therefore, there are no net adjustments for amortization of CIAC to the depreciation expense. Based on the above, the total approved depreciation expense is \$3,537 (\$2,176 + \$755 + 606) for water and \$371 (\$198 + \$173) for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$2,140 for water and \$3,237 for wastewater in this account for regulatory assessment fees (RAFs). Based on the test year revenues approved above, we have no adjustments to Heather Hills' recorded RAFs. Revenues have been increased by \$7,099 for water and \$15,110 for wastewater to reflect the change in revenue required to cover expenses and allow the approved return on investment. As a result, TOTI shall be increased by \$319 for water and \$680 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, TOTI is \$2,459 for water and \$3,925 for wastewater.

Income Tax – The Utility recorded no income tax expense for either water or wastewater. Heather Hills is a limited partnership. The tax liability is passed on to the owner's personal tax returns. Therefore, we did not make an adjustment to this account.

Operating Expenses Summary – The application of our approved adjustments to Heather Hills' recorded test year operating expenses results in approved operating expenses is \$52,190 for water and \$85,474. Operating expenses are shown on Schedule Nos. 3-A and 3-B, and adjustments are shown on Schedule No. 3-C.

OPERATING RATIO METHODOLOGY

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 for staff assistance in alternative rate setting.

Although, Heather Hills did not petition for alternative rate setting under the aforementioned rule, we find it is appropriate in this case to exercise our discretion to employ the operating ratio methodology as an alternative means to set wastewater 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 Heather Hills' 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, we first utilized the operating ratio methodology as an alternative means for setting rates.⁷ This order also discussed criteria related to 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.⁸ Most recently, we approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.⁹

In Order No. PSC-96-0357-FOF-WU, we described 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 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 audit, the adjusted rate base for the test year is \$11,537, while adjusted O&M expenses are \$81,178.
- 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. Heather Hills is a Class C utility and the approved revenue requirement of \$87,212 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. A review of the MCHD records shows no compliance problems. The quality of service appears satisfactory.
- 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. Heather Hills purchases wastewater treatment from Manatee County. We calculated the operating ratio method without consideration of the purchased wastewater treatment costs.

⁷ 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.

⁸ 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.

⁹ 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.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we 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, we 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. The interest expense is approximately \$2,029, or \$1,014 each for water and wastewater.

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 greater operating cost. Therefore, the margin must adequately compensate the utility owner for that risk. Under the rate base method, the return to Heather Hills amounts to only \$533, which is enough to cover less than a 1-percent variance in O&M expenses. We find that \$533 is an insufficient financial cushion.

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 our estimates, Heather Hills 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 \$533 in operating income to cover revenue and expense variances. Heather Hills' wastewater system would not be able to cover its share of the interest expense nor any variances in revenues and expenses.

In conclusion, we find 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 Heather Hills with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we approve application of the operating ratio methodology at a margin of 10 percent of O&M expenses for determining the revenue requirement for the wastewater system.

REVENUE REQUIREMENT

Heather Hills shall be allowed an annual increase of \$7,099 (14.89 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn a 4.62 percent return on its investment. Using the operating ratio method for calculating the revenue requirement for wastewater, the Utility shall be allowed an annual increase in revenue of \$15,110 (20.96 percent). This will allow Heather Hills the opportunity to recover its expenses and earn a 10.00 percent operating margin on its O&M expense. The calculations are as follows:

Table 8-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$56,106
Rate of Return	x .0462
Return on Rate Base	\$2,592
Adjusted O&M expense	46,194
Depreciation expense (Net)	3,537
Amortization	0
Taxes Other Than Income	2,459
Income Taxes	0
Revenue Requirement	\$54,782
Less Test Year Revenues	47,683
Annual Increase	\$7,099
Percent Increase/(Decrease)	14.89%

Table 8-2

<u>Wastewater Revenue Requirement</u>	
Adjusted O&M Expenses	\$81,178
Purchased Wastewater Treatment (PWT)	63,794
Adjusted O&M Less PWT	\$17,384
Rate of Return/Operating Margin	x .1000
Operating Margin	\$ 1,738
Adjusted O&M expense	81,178
Depreciation expense (Net)	371
Amortization	0
Taxes Other Than Income	3,925

Income Taxes	0
Revenue Requirement	\$87,212
Less Test Year Revenues	72,102
Annual Increase	\$15,110
Percent Increase/(Decrease)	20.96%

RATE STRUCTURE

The Utility's current rate structure for the water system's residential and non-residential classes consists of a traditional BFC/gallage charge rate structure. The BFC is \$22.85 and is billed on a quarterly basis. The usage charge is \$2.46 per kgal.

According to the Utility owner, Mrs. Chris Stephens, the customer base is 70 percent seasonal. In prior cases, it has been our practice to convert the Utility's billing system to a monthly system.¹⁰ This is done in an effort to give customers a more timely price signal that will allow customers to adjust their consumption accordingly. However, the additional costs associated with the change from quarterly to monthly billing are estimated by the Utility to be approximately \$10,000 per year. Furthermore, the Utility has indicated that receiving cash on a quarterly basis does not present a problem for it to pay its monthly bills in a timely manner. For these reasons, we find it appropriate to allow the Utility to retain its quarterly billing system.

Water use in the area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD or District). However, the Utility purchases its potable water and wastewater treatment from Manatee County and resells these services to the customers of the Utility. For this reason, Heather Hills is considered non-jurisdictional by the District.

The Utility had 2.06 percent EUW during the test year. The consumption data was flawed due to faulty meters. However, the Utility recently replaced all meters throughout the service area. As a result, based on recent consumption data provided by the Utility, there is no longer any evidence of EUW. Therefore, we find that it is appropriate to adjust the number of gallons sold during the test year to reflect the fact that the old meters were not accurately measuring consumption. It is our practice to allow 10 percent of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-

¹⁰ See Orders No.16041, issued April 24, 1986, in Docket No. 860162-WS, In re: Request of Central Utilities, LTD for authority to change billing methods from quarterly to monthly in Citrus County, Florida; 18551, issued December 15, 1987, in Docket No. 860960, In re: Application of St. Johns Service Co. for increased water and sewer rates in St. Johns County, Florida; PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.

revenue producing water caused by faulty meters, line flushing, etc.¹¹ The total water purchased by the Utility during the test year was 6,773,000 gallons. Therefore, for rate setting purposes, the approved number of gallons sold is set at 6,096,600 gallons. (6,773,000 gallons x 90% = 6,096,600 gallons).

Based on the above, the revenue requirement increase is 14.89 percent. Because we do not change the Utility's current BFC/uniform gallonage rate structure, we find it is appropriate to apply the additional revenues as an across-the-board adjustment to current rates. However, because of the increase in the number of gallons sold, an increase in rates of 13.4 percent will allow the Utility to recover its revenue requirement. This results in the BFC cost recovery percentage remaining at 68.6 percent, and the BFC and gallonage charge to be set at \$25.91 and \$2.79, respectively.

Based on the foregoing, the current rate structure for both the residential and non-residential classes, which consist of a quarterly BFC/usage charge, remain unchanged. The water system's BFC shall be set to recover 68.6 percent of the cost to provide service.

The Utility's current rate structure for the wastewater system's residential and non-residential classes consists of a BFC/gallonage charge rate structure. The Utility's current tariff indicates that the BFC is \$29.27 and is billed on a quarterly basis. The usage charge is \$6.02 per kgal. The Utility's current monthly wastewater usage is based on 85 percent of the water usage. The Utility states that its billing system is not capable of performing the function of applying 85 percent to actual water usage. Therefore, the Utility applies the percentage to the gallonage charge (\$6.02 x 85%). For this reason, the customers' monthly usage rate is \$5.11 per kgal for all water gallons sold.

Currently, the Utility does not have a residential wastewater gallonage cap. However, it is Commission practice to set a residential wastewater gallonage cap at a consumption level equal to 80 percent of the total number of residential gallons sold.¹² As mentioned earlier, the consumption data was flawed due to meters not accurately measuring consumption. For this reason, we do not find it appropriate to have a residential wastewater gallonage cap for this Utility. However, we approve a 20 percent differential in the wastewater gallonage charge between the Utility's residential and general service customers. This is done in an effort to recognize that 80 percent of all water sold to residential customers is returned to the wastewater system, with the remaining 20 percent being used for outdoor purposes like irrigation.

¹¹ See Order Nos. 12272, issued July 19, 1983, in Docket No. 820067-WS, In re: Application of Ferncrest Utilities for increased water and sewer rates in Broward County.; 12595, issued October 10, 1983, in Docket No. 810424-WS, In re: Petition of Meadowbrook Utility Systems, Inc. for increased water and sewer rates in Palm Beach County, Florida (Section 367.081, Florida Statutes).; and PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System).

¹² See Order Nos. 12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida.; and PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Consistent with the approved rate structure for the water system, we find it appropriate that the current rate structure for the wastewater system, which is billed quarterly, remain unchanged. As approved, the revenue requirement increase for wastewater is 20.96 percent. Because we do not change the Utility's current BFC/uniform gallonage rate structure, we find it appropriate to apply the additional revenues as an across-the-board adjustment to current rates. However, because of the increase in the number of gallons sold discussed above, an increase in rates of 19.1 percent will allow the Utility to recover its revenue requirement. Applying this increase as an across-the-board increase results in a BFC of \$34.85 and a gallonage charge of \$7.61 applied to 80 percent of the gallons sold. However, given the limitation of the Utility's billing system discussed above, the residential wastewater gallonage rate is \$6.09 ($\$7.61 \times 80\% = \6.09) applied to all gallons sold. The general service wastewater gallonage rate is set at 1.2 times the residential gallonage rate resulting in a rate of \$7.31 per kgal. These rates result in a BFC allocation percentage of 57.4 percent. This BFC allocation percentage is appropriate for a Utility with a highly seasonal customer base. Furthermore, this BFC allocation also falls within the guidelines of setting the BFC cost recovery to at least 50 percent due to the capital intensive nature of wastewater systems.

Based on the foregoing, the current wastewater rate structure for both the residential and non-residential classes, which consists of a quarterly BFC/usage charge, shall remain unchanged. The wastewater system's BFC shall be set to recover 57.4 percent of the cost to provide service.

REPRESSION ADJUSTMENT

As approved above, the revenue requirement increase is small. Furthermore, the billing data provided by the Utility was flawed due to faulty meters. Detailed billing data is needed to calculate a repression adjustment that differentiates between non-discretionary and discretionary usage. Based on the above, we were not able to reliably calculate a repression adjustment in this case. However, we find it appropriate that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports shall be filed with us, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall be ordered to file a revised monthly report for that month within 30 days of any revision.

RATES

The approved revenue requirement is \$54,782 for the water system and \$87,212 for the wastewater system. However, after excluding miscellaneous service revenues of \$536 for water, the revenue to be recovered through rates is \$54,246. There are no miscellaneous service charges for the wastewater system.

The approved rates shall be effective for service rendered on or after 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 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.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

FOUR YEAR RATE REDUCTION

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 for water only, the associated operating margin for wastewater only, and the gross-up for RAFs which is \$368 for water and \$403 for wastewater. Using Heather Hills' current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

If the Utility 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.

TEMPORARY RATES

By this Order we are approving 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, approved rates shall be approved as temporary rates. Heather Hills shall file revised tariff sheets and a proposed customer notice to reflect the Commission-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 the proposed notice is approved, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

The Utility shall be authorized to collect the temporary rates upon our 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 \$14,818. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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 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 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. 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 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

PROOF OF ADJUSTMENTS

To ensure that the Utility adjusts its books in accordance with the Commission's decision, Heather Hills 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 Heather Hills Estates Utilities LLC's application for an increase in rates and charges is hereby 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 are 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 Heather Hills Estates Utilities LLC is hereby authorized to charge the new rates and charges as set forth in Schedule Nos. 4-A and 4-B and as approved in the body of this Order. It is further

ORDERED that the Utility shall prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. These reports shall be prepared by customer class and meter size. These reports shall be filed with our staff, on a semi-

annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Heather Hills 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 that Heather Hills Estates Utilities LLC shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that 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. It is further

ORDERED that 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. It is further

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

ORDERED that Heather Hills Estates Utilities LLC shall file revised tariffs and the proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, 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. It is further

ORDERED that, pursuant to Section 367.0814(7), F.S., the approved rates shall 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. It is further

ORDERED that temporary rates shall not be implemented until approval of the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. It is further

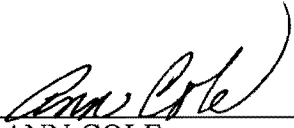
ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with this Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that Heather Hills 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 that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA which are final agency action, the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by 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" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open until our staff has approved the revised tariffs sheets and customer notices, the Utility 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, and the Utility has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once our staff has verified that all of the above actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 29th day of September, 2011.



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

TLT

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 October 20, 2011.

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.

HEATHER HILL ESTATES UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2010		DOCKET NO. 100472-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$90,326	(\$8,562)	\$81,764
2. LAND & LAND RIGHTS	389	0	389
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(26,625)	0	(26,625)
5. ACCUMULATED DEPRECIATION	(45,989)	14,168	(31,821)
6. AMORTIZATION OF CIAC	26,625	0	26,625
7. ACQUISITION ADJUSTMENT	99,587	(99,587)	0
8. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,774</u>	<u>5,774</u>
9. WATER RATE BASE	<u>\$144,313</u>	<u>(\$88,207)</u>	<u>\$56,106</u>

HEATHER HILL ESTATES UTILITIES, LLC		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/2010		DOCKET NO. 100472-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$74,508	(\$682)	\$73,826
2. LAND & LAND RIGHTS	389	0	389
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(72,836)	11	(72,825)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	0	<u>10,147</u>	<u>10,147</u>
8. WASTEWATER RATE BASE	<u>\$2,061</u>	<u>\$9,476</u>	<u>\$11,537</u>

HEATHER HILL ESTATES UTILITIES, LLC
TEST YEAR ENDED 12/31/2010
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 100472-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect the appropriate balance per Order No. PSC-96-1126-FOF-WS.	\$250	\$250
2. To record a 2009 plant addition to Acct. No. 331.	75	0
3. To capitalize mains recorded in contractual services.	2,520	0
4. To capitalize valves recorded in miscellaneous expense.	461	0
5. To record valves purchased.	89	0
6. To reflect the correct replacement cost of mains.	(13,634)	0
7. To record meter installations for 2009.	290	0
8. To record van purchased in 2009.	1,500	1,500
9. To reflect the appropriate balance for office equipment.	(1,522)	(1,522)
10. To capitalize meters recorded in purchased water expense.	190	0
11. To remove expenses capitalize to meter and meter installations.	(750)	0
12. To reflect an averaging adjustment.	(10,325)	(910)
13. To reflect pro forma plant additions.	<u>12,294</u>	<u>0</u>
Total	<u>(\$8,562)</u>	<u>(\$682)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per Rule 25-30.140 F.A.C.	\$13,739	\$104
2. To reflect an averaging adjustment.	1,035	(93)
3. To reflect accumulated depreciation on pro forma plant.	<u>(606)</u>	<u>0</u>
Total	<u>\$14,168</u>	<u>\$11</u>
<u>ACQUISITION ADJUSTMENT</u>		
To remove acquisition adjustment.	<u>(\$99,587)</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$5,774</u>	<u>\$10,147</u>

HEATHER HILL ESTATES UTILITIES, LLC
 TEST YEAR ENDED 12/31/2010
 SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. RETAINED EARNINGS	\$63,093	0	\$63,093					
2. PAID IN CAPITAL	<u>(53,398)</u>	0	<u>(53,398)</u>					
3. TOTAL COMMON EQUITY	\$9,695	\$0	9,695	(\$46)	9,741	14.40%	11.16%	1.61%
4. TOTAL LONG TERM DEBT	<u>57,632</u>	0	<u>57,632</u>	<u>(271)</u>	<u>57,903</u>	<u>85.60%</u>	3.52%	<u>3.01%</u>
5. TOTAL	<u>\$67,327</u>	<u>\$0</u>	<u>\$67,327</u>	<u>(\$317)</u>	<u>\$67,644</u>	<u>100.00%</u>		<u>4.62%</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>4.48%</u>	<u>4.76%</u>		

HEATHER HILL ESTATES UTILITIES, LLC TEST YEAR ENDED 12/31/2010 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 100472-WS		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$47,545</u>	<u>\$138</u>	<u>\$47,683</u>	<u>\$7,099</u> 14.89%	<u>\$54,782</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$44,797	\$1,397	\$46,194	0	\$46,194
3. DEPRECIATION (NET)	2,176	1,361	3,537	0	3,537
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,140	0	2,140	319	2,459
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$49,113</u>	<u>\$2,758</u>	<u>\$51,871</u>	<u>\$319</u>	<u>\$52,190</u>
8. OPERATING INCOME/(LOSS)	<u>(\$1,568)</u>		<u>(\$4,188)</u>		<u>\$2,592</u>
9. WATER RATE BASE	<u>\$144,313</u>		<u>\$56,106</u>		<u>\$56,106</u>
10. RATE OF RETURN	<u>-1.09%</u>		<u>-7.46%</u>		<u>4.62%</u>

HEATHER HILL ESTATES UTILITIES, LLC				SCHEDULE NO. 3-B	
TEST YEAR ENDED 12/31/2010				DOCKET NO. 100472-WS	
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$71,929</u>	<u>\$173</u>	<u>\$72,102</u>	<u>\$15,110</u> 20.96%	<u>\$87,212</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$73,803</u>	<u>\$7,375</u>	<u>\$81,178</u>	<u>0</u>	<u>\$81,178</u>
3. DEPRECIATION (NET)	<u>198</u>	<u>173</u>	<u>371</u>	<u>0</u>	<u>371</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>3,237</u>	<u>8</u>	<u>3,245</u>	<u>680</u>	<u>3,925</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$77,238</u>	<u>\$7,556</u>	<u>\$84,794</u>	<u>\$680</u>	<u>\$85,474</u>
8. OPERATING INCOME/(LOSS)	<u>(\$5,309)</u>		<u>(\$12,692)</u>		<u>\$1,738</u>
9. WASTEWATER RATE BASE	<u>\$2,061</u>		<u>\$11,537</u>		<u>\$11,537</u>
10. OPERATING RATIO*	<u>-257.59%</u>		<u>-110.01%</u>		<u>10.00%</u>
(*UTILITY AND COMMISSION TEST YEAR ARE BASED ON RATE OF RETURN METHOD)					

HEATHER HILL ESTATES UTILITIES, LLC
TEST YEAR ENDED 12/31/2010
ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To reflect the appropriate test year revenues.	<u>\$138</u>	<u>\$173</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Water /Purchased Wastewater(610/710)		
a. To reverse the Utility's journal entry.	\$1,897	\$0
b. To remove testing expenses already recorded to testing expense.	(1,063)	0
c. To reclassify to wastewater testing expenses.	(52)	0
d. To remove a non-Utility expense.	(146)	0
e. To capitalized labor for meter installation.	(190)	0
f. To reclassify to meter reading expense.	(240)	0
g. To reclassify to chemical expense.	(352)	0
h. To correct Utility's recording of NSF check.	25	0
i. To correct the Utility's erroneous credit.	58	0
j. To reflect increased rates and billing change by Manatee County.	<u>974</u>	<u>4,067</u>
Subtotal	<u>\$911</u>	<u>\$4,067</u>
2. Chemicals (618/ 718)		
a. To reclassify chemicals from purchased water.	<u>\$0</u>	<u>\$352</u>
3. Contractual Services - Billing (630/ 730)		
a. To reclassify from purchased water.	\$120	\$120
b. To reclassify meter reading expenses from plant.	<u>120</u>	<u>120</u>
Subtotal	<u>\$240</u>	<u>\$240</u>
4. Contractual Services - Professional		
To reclassify rate case expense related to transfer docket.	<u>(\$100)</u>	<u>(\$100)</u>
5. Contractual Services - Testing (635/ 735)		
a. To reclassify testing expense from purchased water.	\$0	\$52
b. To record testing expense paid by HOA.	<u>0</u>	<u>15</u>
Subtotal	<u>\$0</u>	<u>\$67</u>
6. Contractual Services - Other (636/ 736)		
a. To reflect the appropriate management fee.	\$1,750	\$1,750
b. To capitalize plant recorded as an expense.	(2,520)	0
c. To remove an out-of-period expense.	(199)	0
d. To reclassify to miscellaneous expense.	(46)	0
e. To remove non-Utility expense.	(49)	(50)
f. To reclassify to miscellaneous expense for computers.	(375)	(375)
g. To remove non-Utility expense.	(74)	(74)
h. To reclassify from miscellaneous for repairs.	804	0
i. To reverse the Utility's journal entry.	(834)	0
j. To reclassify repair cost from meter and meter installation.	<u>490</u>	<u>0</u>
Subtotal	<u>(\$1,053)</u>	<u>\$1,251</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)
HEATHER HILL ESTATES UTILITIES, LLC
TEST YEAR ENDED 12/31/2010
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 100472-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
7. Rents (640/ 740) To reflect the appropriate rent expense.	<u>\$1,400</u>	<u>\$1,400</u>
8. Transportation Expense (650/ 750)		
a. To reclassify transportation expense from contractual services.	\$137	\$137
b. To reclassify to miscellaneous expense from office.	(151)	(151)
c. To amortize tire purchase over five years.	<u>(480)</u>	<u>(481)</u>
Subtotal	<u>(\$494)</u>	<u>(\$495)</u>
9. Insurance Expenses (655/ 755)		
a. To record the appropriate insurance expense.	<u>\$382</u>	<u>\$381</u>
10. Regulatory Expense (665/ 765)		
a. To reflect four year amortization of rate case expense.	\$325	\$325
b. To reflect four-year amortization of rate case related to transfer docket.	<u>25</u>	<u>25</u>
Subtotal	<u>\$350</u>	<u>\$350</u>
11. Bad Debt Expense		
a. To reflect bad debt expense.	<u>\$278</u>	<u>\$382</u>
12. Miscellaneous Expense (675/ 775)		
a. To reverse Utility's journal entry.	\$1,824	\$1,824
b. To reverse the incorrect recording of NSF check.	(54)	(54)
c. To reclassify office expenses from contractual services-other.	23	23
d. To reclassify office expenses from contractual services-other.	375	375
e. To reclassify office supplies from transportation expense.	151	151
f. To capitalize computer equipment.	(724)	(724)
g. To remove non-Utility allocation of computer equipment.	(362)	(362)
h. To reclassify repairs to contractual services-other.	(402)	(402)
i. To remove non-Utility expense.	(18)	0
j. To record FL Department of State filing fee.	70	70
k. To reclassify from meters and meter installation.	20	0
l. To capitalize valves.	(231)	(231)
m. To reflect miscellaneous expense incurred.	137	137
n. To remove unsupported expenses.	(1,300)	(1,300)
o. To remove non-utility expense.	<u>(26)</u>	<u>(26)</u>
Subtotal	<u>(\$517)</u>	<u>(\$519)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$1,397</u>	<u>\$7,375</u>
DEPRECIATION EXPENSE		
1. To reflect the depreciation expense.	\$755	\$173
2. To reflect pro forma depreciation expense.	<u>606</u>	<u>0</u>
Total	<u>\$1,361</u>	<u>\$173</u>

HEATHER HILL ESTATES UTILITIES, LLC
TEST YEAR ENDED 12/31/2010
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	COMMISSION ADJUST- MENT		TOTAL PER COMMISSI ON
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0		\$0
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	24,411	911	[1]	25,322
(615) PURCHASED POWER	0	0		0
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	0	[2]	0
(620) MATERIALS AND SUPPLIES	0	0		0
(630) CONTRACTUAL SERVICES - BILLING	0	240	[3]	240
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,803	(100)	[4]	1,703
(635) CONTRACTUAL SERVICES - TESTING	1,063	0	[5]	1,063
(636) CONTRACTUAL SERVICES - OTHER	12,688	(1,053)	[6]	11,635
(640) RENTS	1,000	1,400	[7]	2,400
(650) TRANSPORTATION EXPENSE	1,003	(494)	[8]	509
(655) INSURANCE EXPENSE	0	382	[9]	382
(665) REGULATORY COMMISSION EXPENSE	0	350	[10]	350
(670) BAD DEBT EXPENSE	0	278	[11]	278
(675) MISCELLANEOUS EXPENSES	<u>2,829</u>	<u>(517)</u>	[12]	<u>2,312</u>
	<u>\$44,797</u>	<u>\$1,397</u>		<u>\$46,194</u>

HEATHER HILL ESTATES UTILITIES, LLC		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/2010		DOCKET NO. 100472-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILIT Y	COMMISSIO N ADJUST- MENT	TOTAL PER COMMISSIO N
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	59,727	4,067 [1]	63,794
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	0	0	0
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	352 [2]	352
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	240 [3]	240
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,803	(100) [4]	1,703
(735) CONTRACTUAL SERVICES - TESTING	0	67 [5]	67
(736) CONTRACTUAL SERVICES - OTHER	7,779	1,251 [6]	9,030
(740) RENTS	1,000	1,400 [7]	2,400
(750) TRANSPORTATION EXPENSE	1,004	(495) [8]	509
(755) INSURANCE EXPENSE	0	381 [9]	381
(765) REGULATORY COMMISSION EXPENSES	0	350 [10]	350
(770) BAD DEBT EXPENSE	0	382 [11]	382
(775) MISCELLANEOUS EXPENSES	<u>2,490</u>	<u>(519) [12]</u>	<u>1,971</u>
	<u>\$73,803</u>	<u>\$7,375</u>	<u>\$81,178</u>

HEATHER HILL ESTATES UTILITIES, LLC
TEST YEAR ENDED 12/31/2010
QUARTERLY WATER RATES

SCHEDULE NO. 4-A
DOCKET NO. 100472-WS

	UTILITY'S EXISTING RATES	COMMISSION APPROVED RATES	RATE REDUCTION
<u>Residential and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$22.85	\$25.91	\$0.17
3/4"	\$0.00	\$38.87	\$0.26
1"	\$0.00	\$64.78	\$0.44
1-1/2"	\$0.00	\$129.55	\$0.87
2"	\$0.00	\$207.28	\$1.39
3"	\$0.00	\$414.56	\$2.79
4"	\$0.00	\$647.75	\$4.35
6"	\$0.00	\$1,295.50	\$8.70
<u>Gallonage Charge</u>			
Per 1,000 Gallons	\$2.46	\$2.79	\$0.02
<u>Typical Quarterly Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$30.23	\$34.28	
5,000 Gallons	\$35.15	\$39.86	
10,000 Gallons	\$47.45	\$53.81	

HEATHER HILL ESTATES UTILITIES, LLC

SCHEDULE NO. 4-B

TEST YEAR ENDED 12/31/2010

DOCKET NO. 100472-WS

QUARTERLY WASTEWATER RATES

	UTILITY'S EXISTING RATES	COMMISSION APPROVED RATES	RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$29.27	\$34.85	\$0.16
<u>Gallonge Charge</u>			
Per 1,000 Gallons	\$6.02	\$6.09	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$29.27	\$34.85	\$0.16
3/4"	\$0.00	\$52.28	\$0.24
1"	\$0.00	\$87.13	\$0.40
1-1/2"	\$0.00	\$174.25	\$0.80
2"	\$0.00	\$278.80	\$1.29
3"	\$0.00	\$557.60	\$2.57
4"	\$0.00	\$871.25	\$4.02
6"	\$0.00	\$1,742.50	\$8.04
Gallonge Charge per 1,000 gallons	\$6.02	\$7.31	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$47.33	\$53.12	
5,000 Gallons	\$59.37	\$65.30	
10,000 Gallons	\$89.47	\$95.75	