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STATE OF FLORIDA



OFFICE OF THE GENERAL COUNSEL
S. CURTIS KISER
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

June 13, 2011

RECEIVED-FPSC
11 JUN 13 PM 3:07
COMMISSION
CLERK

Heather Hills Estates Utilities, LLC
Attn: Chris Stephens
4925 3rd Street West
Bradenton, FL 34207

Re: Docket No. 100472-WS - Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities, LLC

Dear Ms. Stephens:

This will confirm that Commission staff will hold a customer meeting at the Heather Hills Estates Clubhouse on June 30, 2011, starting at 6:00 p.m. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend all scheduled meetings in order to answer customer questions. The location of the general meeting will be as follows:

Heather Hills Estates Clubhouse
4925 3rd Street, West
Bradenton, FL 34207

A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 calendar days' notice of the meeting, calculated from the day that they receive the notice as required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.). Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Two copies of the staff report are also enclosed. Please ensure that a copy of the completed application for staff-assistance and the preliminary 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:

Heather Hills Estates Utilities, LLC
4925 3rd Street, West
Bradenton, FL 34207

DOCUMENT NUMBER 5411

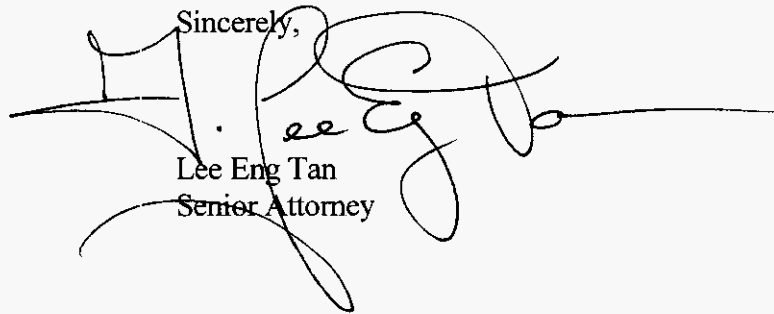
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FPSC-COMMISSION CLERK

Ms. Stephens
Page 2
June 13, 2011

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6185. In addition, you may contact Shannon Hudson at (850) 413-7021, with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee Eng Tan", is written over the typed name and title. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Lee Eng Tan
Senior Attorney

Enclosure

LT:sh

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

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Service, Safety & Consumer Assistance at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Office of Commission Clerk.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

DOCUMENT NUMBER CASE

04062 JUN 13 =

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETINGS

TO THE CUSTOMERS OF HEATHER HILLS ESTATES UTILITIES, LLC

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 100472-WS

APPLICATION OF HEATHER HILLS ESTATES UTILITIES, LLC

FOR A STAFF-ASSISTED RATE CASE IN
MANATEE COUNTY

Issued: _____, _____

Notice is hereby given that the Staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Heather Hills Estates Utilities, LLC (Heather Hills or Utility) for a staff-assisted rate case in Manatee County. The meeting will be held at the following time and place:

6:00 p.m., Thursday, June 30, 2011
Heather Hills Estates Clubhouse
4925 3rd Street, West
Bradenton, FL 34207

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Florida Public Service Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Office of the General Counsel at 850-413-6199.

Pursuant to the provisions of the American with Disabilities Act, any person requiring special accommodations to participate at the customer meeting should contact the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Heather Hills' proposed filing; the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

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 certificates from Keith & Clara Starkey d/b/a Heather Hills Estates to Heather Hills Estates Utilities, LLC. The Utility's 2009 Annual Report indicates that the Utility's operating revenue was \$48,523 for the water system and \$73,774 for the wastewater system.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates for the purpose of discussion at the customer meeting. The rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. The Utility's current and staff's preliminary rates are as follows:

<u>Water Rates</u>	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES
<u>Residential and General Service</u>		
<u>Base Facility Charge by Meter Size:</u>		
5/8"X3/4"	\$22.85	\$26.11
3/4"	\$0.00	\$39.17
1"	\$0.00	\$65.28
1-1/2"	\$0.00	\$130.55
2"	\$0.00	\$208.88
3"	\$0.00	\$417.76
4"	\$0.00	\$652.75
6"	\$0.00	\$1,305.50
 Gallage Charge Per 1,000 Gallons	 \$2.46	 \$2.81

<u>Wastewater Rates</u>	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES
<u>Residential Service</u>		
Base Facility Charge All Meter Sizes	\$29.27	\$36.53
<u>Gallage Charge</u>		
Per 1,000 Gallons (18,000 gallon cap)	\$6.02	\$6.38
 <u>General Service</u>		
Base Facility Charge by Meter Size:		
5/8"X3/4"	\$29.27	\$36.53
3/4"	\$0.00	\$54.80
1"	\$0.00	\$91.33
1-1/2"	\$0.00	\$182.65
2"	\$0.00	\$292.24
3"	\$0.00	\$584.48
4"	\$0.00	\$913.25
6"	\$0.00	\$1,826.50
 Gallage Charge per 1,000 gallons	 \$6.02	 \$7.66

STAFF REPORT AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated May 27, 2011. Copies of the report may be examined by interested members of the public from 8:30 to 1:00 pm, Monday, Wednesday, and Friday at the following location:

Heather Hills Estates Utilities, LLC
4925 3rd Street, West
Bradenton, FL 34207

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on August 11, 2011. The Public Service Commission will then vote on staff's recommendation at its August 23, 2011 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Commission Clerk, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 100472-WS, Heather Hills Estates Utilities, LLC"

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Service, Safety and Consumer Assistance at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 27, 2011

TO: Andrew Maurey, Bureau Chief, Bureau of Rate Filings

FROM: Shannon Hudson, Regulatory Analyst IV *SH*
Jay Williams, Engineering Specialist II *JW*
Sonica Bruce, Regulatory Analyst IV *SB*

RE: Docket No. 100472-WS – Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities, LLC

- 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.

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 certificates from Keith & Clara Starkey d/b/a Heather Hills Estates to Heather Hills Estates Utilities, LLC. The Utility's 2009 Annual Report indicates that the Utility's operating revenue was \$48,523 for the water system and \$73,774 for the wastewater system.

Discussion of Issues

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

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the June 30, 2011, customer meeting. (Williams)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines 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 by the Commission from customers are also reviewed. The Utility's compliance with the Manatee County Health Department (MCHD) is also considered.

Quality of Utility's Product and Operating Condition of Utility's Facilities

Heather Hills is a consecutive system that purchases bulk water and wastewater service from Manatee County Utilities (MCU) 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 in compliance with all regulations and requirements.

Heather Hills recently replaced a majority of 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. Most of the work associated with these projects was completed during the test year. The Utility requested that the cost of the improvements completed after the test year be included as pro forma plant additions. The pro forma plant additions are discussed more fully in Issue 3.

Utility's Attempt to Address Customer Satisfaction

A customer meeting is scheduled to be held on June 30, 2011, in the service area of Heather Hills. Staff expects to finalize its recommendation regarding the Utility's attempt to address customer satisfaction and overall quality of service after hearing the customer comments provided at the customer meeting.

A review of all customer complaints received on the Commission's complaint tracking system in the last three years revealed two complaints. One complaint was related to a billing issue and the other was a service complaint. Both complaints were subsequently resolved. Staff also reviewed customer complaints filed with the Utility. It appears that all of the complaints filed with the Utility were resolved appropriately and in a timely manner. One letter in opposition to the proposed rate increase has been filed in the correspondence side of the docket file.

Issue 2: What are the used and useful percentages for the water distribution system and wastewater collection system?

Preliminary Recommendation: Both the Heather Hills' water distribution and wastewater collection systems should be considered 100 percent used and useful (U&U). (Williams)

Staff Analysis: Heather Hills serves a mobile home park that was built in 1967. The service territory appears to be built out, with no growth occurring over the past 5 years. Therefore, staff recommends that both the water distribution and wastewater collection systems be considered 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 (UFW) during the test year. However, the Utility has replaced the majority of the older water meters throughout the system with newer, more accurate meters. As a result, the amount of UFW is expected to decrease to within acceptable levels. Therefore, staff recommends that no adjustment be made to chemical and electricity expenses for UFW. However, as discussed further in Issue 9, staff recommends adjusting the billing determinants to reflect the higher usage recorded by the new meters. Because the amount of wastewater treated by MCU on behalf of Heather Hills is not measured, staff was unable to calculate whether there is excessive infiltration and inflow, and thus no adjustment is recommended.

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

Preliminary Recommendation: The appropriate average test year rate bases for the Utility are \$56,045 and \$11,089 for water and wastewater, respectively. (Hudson)

Staff Analysis: The water and wastewater rate bases for Heather Hills were last established by Order No. PSC-96-1126-FOF-WS.¹ Staff selected a test year ended December 31, 2010, for this rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS balances of \$90,326 for water and \$74,508 for wastewater. Staff's recommended 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. Staff believes the cost of the pro forma plant additions is reasonable and prudent. Therefore, staff recommends that UPIS be increased to reflect the pro forma plant additions. Staff recommends the following adjustments to the water and wastewater UPIS amounts.

		WATER	WASTEWATER
	UTILITY PLANT IN SERVICE		
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)

Staff's net adjustments to UPIS are decreases of \$8,562 for water and \$682 for wastewater. Staff recommends UPIS balances of \$81,764 for water and \$73,826 for wastewater.

Non-used and Useful Plant: As discussed in Issue 2, Heather Hills' water distribution and wastewater collection systems should be considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

¹ 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.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$45,989 for water and \$72,836 for wastewater. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is \$32,250 for water and \$72,732 for wastewater. As a result, staff has decreased accumulated depreciation by \$13,739 for water and \$104 for wastewater. In addition, staff has decreased accumulated depreciation by \$1,035 for water and increased the amount for wastewater by \$93 to reflect averaging adjustments. Also, staff 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.² Therefore, staff has 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., staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends working capital allowances of \$5,712 for water and \$9,699 for wastewater (based on O&M expense of \$45,700 for water and \$77,593 for wastewater).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$56,045 for water and \$11,089 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.

² 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.

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

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.85 percent with a range of 9.85 percent to 11.85 percent. The appropriate overall rate of return is 4.58 percent. (Hudson)

Staff Analysis: The Utility's capital structure consists of common equity of \$9,695 and long-term debt of \$57,632. The appropriate ROE is 10.85 percent using the Commission-approved leverage formula currently in effect.³ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 10.85 percent, with a range of 9.85 percent to 11.85 percent, and an overall rate of return of 4.58 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³ 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 revenue for this Utility is \$47,545 for water and \$71,929 for wastewater. (Hudson)

Staff Analysis: Heather Hills recorded total revenue of \$47,545 for water and \$71,929 for wastewater. Staff has annualized revenues based on test year billing determinants and existing rates and determine the Utility's recorded revenue to be appropriate. Staff has no adjustments to test year revenues. Staff recommends test year revenue of \$47,545 and \$71,929 for water and wastewater, respectively. Water and wastewater test year revenue is shown on Schedule Nos. 3-A and 3-B, respectively.

Issue 6: What is the appropriate amount of test year operating expenses?

Preliminary Recommendation: The appropriate amount of operating expense for the Utility is \$51,678 for water and \$82,002 for wastewater. (Hudson)

Staff Analysis: 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. Staff made several adjustments to the Utility's operating expenses, as summarized below:

Purchased Water/Purchased Wastewater (610/710) – Heather Hills recorded \$24,411 to the purchased water account and \$59,727 for purchased wastewater treatment. Staff has made several adjustments to the purchased water account that relate to reversing an Utility journal entry, reclassifying expenses, capitalizing plant additions, removing non-Utility expenses, and correcting Utility adjustments. Staff recommends the following adjustments to purchased water.

	WATER	WASTEWATER
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
3. To remove a non-utility expense.	(146)	0
4. To capitalized labor for meter installation.	(190)	0
5. To reclassify to meter reading expense.	(240)	0
6. To reclassify to chemical expense.	(352)	0
7. To correct Utility's recording of NSF check.	25	0
8. To correct the Utility's erroneous credit.	58	0
Total	<u>(\$63)</u>	<u>\$0</u>

Staff's net adjustments to purchased water are a decrease of \$63. Staff has no adjustment to purchased wastewater. Staff recommends purchased water/purchased wastewater expenses of \$24,348 for water and \$59,727 for wastewater.

Chemicals (718) – Heather Hills recorded \$0 in this account. Staff has increased this account by \$352 for wastewater to reclassify chemical expenses from purchased water. Staff recommends chemical expense in the amount of \$352.

Contractual Services – Billing (630/730) – The Utility recorded \$0 of billing expense for both water and wastewater. Staff has reclassified \$240 of meter reading cost from purchased water and increased both water and wastewater by \$120. Also, staff has increased both water and wastewater by \$120 to reflect \$240 of meter reading expense reclassified from plant. Staff recommends contractual services – billing in the amount of \$240 each for water and wastewater.

Contractual Services – Professional (631/731) – Heather Hills recorded \$1,803 for both water and wastewater. The amount recorded in this account reflects \$200 of rate case expense related

Date: May 27, 2011

to the Utility's transfer application. Staff has reclassified the rate case expense to regulatory commission expense. Staff has decreased both water and wastewater by \$100. Staff recommends contractual services – professional in the amount of \$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. Staff has increased wastewater testing by \$52 to reflect testing expense reclassified from purchased water. Also, staff had increased wastewater testing by \$15 to reflect testing paid for by the homeowner's association. Staff recommends testing expense in the amount of \$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: 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: 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. Staff believes the management fee of \$18,000 is supported by the duties performed by the Utility owners. Therefore, staff has 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, staff has adjusted this account to reflect capitalizing plant recorded as expense, reclassifying expenses, removing out-of-period expense, removing non-Utility expenses, and reversing a Utility journal entry. Staff recommends the following adjustments to miscellaneous expense.

	<u>WATER</u>	<u>WASTEWATER</u>
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>

Staff's net adjustments to contractual services – other are a decrease of \$1,053 for water and an increase of \$1,251 for wastewater. Staff recommends contractual services – other \$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. Staff believes the rental fee is reasonable. Staff has increased this account for both water and wastewater by \$1,400 to reflect the appropriate rent expense. Staff recommends rent expense in the amount of \$2,400 for both water and wastewater.

Transportation Expense (650/750) – The Utility recorded \$1,003 for transportation expense for both water and wastewater. Heather Hills paid \$273 for an automobile repair. Staff has increased transportation expense by \$137 for both water and wastewater. Also, staff has decreased both water and wastewater by \$151 to reclassify office supplies to miscellaneous expense. Staff recommends transportation expense of \$989 for water and \$990 for 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. Staff has increased water by \$382 and wastewater by \$381 to reflect the appropriate automobile insurance. Staff recommends insurance expense of \$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, staff has 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 four-year period. Based on the above, staff recommends total rate case expense of \$2,595 (\$595 + \$2,000 + \$200), which amortized over four years is \$699. The rate case expense should be split equally between water and wastewater. Therefore, staff recommends regulatory commission expense of \$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. Staff's audit revealed \$661 in accounts over 120 days old which staff viewed as uncollectible. Staff believes the bad debt expense incurred by Heather Hills is reasonable. Staff recommends water bad debt expense of \$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. Staff's adjustments to miscellaneous expense relate to reversing Utility adjustments, reclassifying expenses, capitalizing plant additions, recording documented expenses, and removing non-utility and unsupported expenses. Staff recommends the following adjustments to miscellaneous expense.

Table 6-3		
	WATER	WASTEWATER
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	(\$517)	(\$519)

Staff's net adjustments to miscellaneous expense are decreases of \$517 and \$519 for water and wastewater, respectively. Staff recommends miscellaneous expense in the amount of \$2,312 for water and \$1,971 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$903 for water and \$3,790 for wastewater. Staff's recommended O&M expenses of \$45,700 for water and \$77,593 for wastewater 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. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation is \$2,931 and \$371 for water and wastewater, respectively. As a result, staff has made adjustments to increase water and wastewater by \$755 and \$173, respectively. Also, staff has 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 of amortization of CIAC to the depreciation expense. Based on the above, staff recommends depreciation expense of \$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 staff's recommended test year revenues, staff's has no adjustments to Heather Hills' recorded RAFs. As discussed in Issue 8, revenues have been increased by \$6,700 for water and \$17,833 for wastewater to reflect the change in revenue required to cover expenses and allow the

recommended return on investment. As a result, TOTI should be increased by \$302 for water and \$802 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is \$2,442 for water and \$4,039 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, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Heather Hills' recorded test year operating expenses results in staff's recommended operating expenses of \$51,678 for water and \$82,002. Operating expenses are shown on Schedule No. 3-A, and adjustments are shown on Schedule No. 3-B.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Heather Hills, 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 the Utility's wastewater system only. The margin should be 4.58 percent of O&M expenses.

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, Heather Hills 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 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, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.⁴ 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.⁵ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.⁶

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 \$11,089, while adjusted O&M expenses are \$77,593.

4 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.

5 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.

6 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.

- 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 recommended revenue requirement of \$85,358 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. When the criteria were established, the Commission found that whether or not to exclude the purchased wastewater costs should be determined on a case-by-case basis.⁷ Further, the Commission found that excluding certain costs may produce too small of an operating margin to provide safe and reliable service. If the purchased wastewater costs were to be removed, it would result in an operating ratio being applied to \$17,866. This is only a little higher than Heather Hills' wastewater rate base. Staff believes that removing the purchased wastewater cost and applying a reasonable margin would not allow the Utility sufficient revenues to protect against variances in revenues and expenses. As a result, for this Utility, staff has calculated the operating ratio method with consideration of the purchased wastewater treatment cost.

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. 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 should adequately compensate the Utility owner for that risk. Under the rate base method, the return to

⁷ See Order No. PSC-96-0357-FOF-WU, p. 7.

Heather Hills amounts to only \$508, which is enough to cover less than a 1-percent variance in O&M expenses. Staff believes \$508 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 staff's 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 \$508 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, 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 Heather Hills 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 \$54,245 for water. Using the operating ratio methodology, the appropriate revenue requirement is \$89,762 for wastewater. (Hudson)

Staff Analysis: Heather Hills should be allowed an annual increase of \$6,700 (14.09 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn a 4.58 percent return on its investment. Using the operating ratio method for calculating the revenue requirement for wastewater, the Utility should be allowed an annual increase in revenue of \$17,833 (24.79 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	\$56,045
Rate of Return	x .0458
Return on Rate Base	\$2,567
Adjusted O&M expense	45,700
Depreciation expense (Net)	3,537
Amortization	0
Taxes Other Than Income	2,442
Income Taxes	0
Revenue Requirement	\$54,245
Less Test Year Revenues	47,545
Annual Increase	\$6,700
Percent Increase/(Decrease)	14.09%

Table 8-2

<u>Wastewater Revenue Requirement</u>	
Adjusted O & M Expenses	\$77,593
Rate of Return/Operating Margin	x .1000
Operating Margin	\$ 7,759
Adjusted O&M expense	77,593
Depreciation expense (Net)	371
Amortization	0
Taxes Other Than Income	4,039
Income Taxes	0
Revenue Requirement	\$89,762
Less Test Year Revenues	71,929
Annual Increase	\$17,833
Percent Increase/(Decrease)	24.79%

Issue 9: What are the appropriate rate structures for the Utility's water and wastewater systems?

Preliminary Recommendation: The appropriate rate structure for the water and wastewater system's residential and non-residential class is a continuation of the base facility charge (BFC)/gallage charge rate structure which is billed quarterly. The water system's BFC cost recovery should remain at 68.6 percent. The wastewater system's non-residential gallage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should remain at 57 percent. Furthermore, staff recommends a quarterly residential wastewater gallage cap be set at 18,000 gallons (18 kgal). (Bruce)

Staff Analysis: 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.

The Utility's customer base is highly seasonal wherein the average consumption is 1,436 gallons per month. When all the customers are in residence, the average consumption is 1,916 gallons per month. In prior cases, it has been Commission practice to convert the Utility's billing system to a monthly system.⁸ 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 customer's low overall average consumption and seasonality is an indication that converting from quarterly to monthly billing may not be appropriate. Also, the additional costs associated with the change from quarterly to monthly billing are estimated by the Utility to be approximately \$10,000 per year. Staff does not believe it is necessary to apply the additional costs needed to convert to a monthly billing system for this Utility. 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, staff recommends the Utility retain its current rate structure which consists of a BFC/uniform gallage charge rate structure billed quarterly.

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.

As discussed in Issue 2, the Utility had 2.06 percent excessive unaccounted for water during the test year. The consumption data is 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 evidence of excessive unaccounted for water. The total water purchased during the test year was 6,774,000 gallons. It is Commission

⁸ 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.

practice to allow ten percent of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by faulty meters, line flushing, etc.⁹ For ratesetting purposes, staff used 6,096 kgals. These gallons were determined based on 90 percent of total water purchased (6,774 kgals x 90%).

As discussed in Issue 8, the revenue requirement increase is 14.09 percent. Staff recommends the revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 68.6 percent, and BFC and gallonage charge of \$26.11 and \$2.81, respectively.

Based on the foregoing, staff recommends that the current rate structure for both the residential and non-residential classes, which consists of a quarterly BFC/usage charge, remain unchanged. The water system's BFC should continue 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. Currently, the Utility does not have a residential wastewater gallonage cap. Instead, the Utility's monthly wastewater usage is based on 85 percent of the water usage. However, 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.

As mentioned earlier for the water system, staff recommends the current rate structure for the wastewater system, which is billed quarterly, remain unchanged. Also, staff recommends the wastewater revenue requirement increase of 24.79 percent be applied as an across-the-board increase to the system's BFC and gallonage charges. This results in the BFC and gallonage charge of \$36.53 and \$6.38, respectively. Applying an across-the-board increase, results in the BFC cost recovery percentage remaining at 58 percent. This BFC cost recovery is appropriate for the seasonal customer base. 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 plants.

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.¹⁰ Based on staff's review of the Utility's billing data, it indicates that a residential wastewater gallonage cap should

⁹ 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).

¹⁰ 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.

be set at 6,000 gallons per month or 18,000 gallons quarterly. Staff recommends the Utility retain its current rate structure which is billed quarterly. Therefore, staff recommends the residential wastewater gallonage cap be set at 18 kgals per quarter. Also, staff recommends the general service charge continues to be 1.2 times greater than the residential charge.

Based on the foregoing, staff recommends that a continuation of the BFC/gallonage charge rate structure for both the residential and non-residential wastewater customer classes. In addition, staff recommends the Utility be allowed to continue to bill customers on a quarterly basis. Furthermore, staff recommends a quarterly residential wastewater gallonage cap be set at 18 kgal. Finally, staff recommends the general service gallonage charge be set at 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system remain at 58 percent.

Issue 10: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Preliminary Recommendation: No, a repression adjustment is not appropriate for Heather Hills. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports should be prepared by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning 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 should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 1,436 gallons and the customer base is highly seasonal. Staff's analysis also indicates that when all of the customers are in residence, the average consumption is 1,914 gallons per month. This is an indication that there is minimal consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should be filed with the Commission, on a semi-annual basis, for a period of two years beginning 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 should be ordered to file a revised monthly report for that month within 30 days of any revision.

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

Preliminary Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue \$53,709 for water and \$89,762 for wastewater, excluding miscellaneous service charges. 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. (Bruce, Hudson)

Staff Analysis: The recommended revenue requirement is \$54,245 for the water system and \$89,762 for the wastewater system. However, after excluding miscellaneous service revenues of \$536 for water, the revenue to be recovered through rates is \$53,709. There are no miscellaneous service charges for the wastewater system.

The approved rates should 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 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.

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.

Issue 12: 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 water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B 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. Heather Hills 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 the Utility 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. (Hudson)

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 \$368 for water and \$366 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 should 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 should 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 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 13: 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 Heather Hills?

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. Heather Hills 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. (Hudson)

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. Heather Hills 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 \$16,376. 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

Docket No. 100472-WS

Date: May 27, 2011

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 14: 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, Heather Hills 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. (Hudson)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Heather Hills 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.

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	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
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>5,712</u>	<u>5,712</u>
9. WATER RATE BASE	<u>\$144,313</u>	<u>(\$88,268)</u>	<u>\$56,045</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	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
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	<u>0</u>	<u>9,699</u>	<u>9,699</u>
8. WASTEWATER RATE BASE	<u>\$2,061</u>	<u>\$9,028</u>	<u>\$11,089</u>

HEATHER HILL ESTATES UTILITIES, LLC		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2010		DOCKET NO. 100472-WS	
ADJUSTMENTS TO RATE BASE			
	<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.	(606)	0	
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>\$5,712</u>	<u>\$9,699</u>	

HEATHER HILL ESTATES UTILITIES, LLC							SCHEDULE NO. 2	
TEST YEAR ENDED 12/31/2010							DOCKET NO. 100472-WS	
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	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	(\$28)	9,667	14.40%	10.85%	1.56%
4. TOTAL LONG TERM DEBT	<u>57,632</u>	0	<u>57,632</u>	<u>(165)</u>	<u>57,467</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>(\$193)</u>	<u>\$67,134</u>	<u>100.00%</u>		<u>4.58%</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>4.43%</u>	<u>4.72%</u>		

HEATHER HILL ESTATES UTILITIES, LLC TEST YEAR ENDING 12/31/2010 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 100472-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$47,545</u>	<u>\$0</u>	<u>\$47,545</u>	<u>\$6,700</u> 14.09%	<u>\$54,245</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	44,797	903	45,700	0	45,700
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	302	2,442
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>\$2,264</u>	<u>\$51,377</u>	<u>\$302</u>	<u>\$51,678</u>
8. OPERATING INCOME/(LOSS)	<u>(\$1,568)</u>		<u>(\$3,832)</u>		<u>\$2,567</u>
9. WATER RATE BASE	<u>\$144,313</u>		<u>\$56,045</u>		<u>\$56,045</u>
10. RATE OF RETURN	<u>-1.09%</u>		<u>-6.84%</u>		<u>4.58%</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	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$71,929</u>	<u>\$0</u>	<u>\$71,929</u>	<u>\$17,833</u> 24.79%	<u>\$89,762</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	73,803	3,790	77,593	0	77,593
3. DEPRECIATION (NET)	198	173	371	0	371
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,237	0	3,237	802	4,039
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>\$3,962</u>	<u>\$81,200</u>	<u>\$802</u>	<u>\$82,002</u>
8. OPERATING INCOME/(LOSS)	<u>(\$5,309)</u>		<u>(\$9,271)</u>		<u>\$7,759</u>
9. WASTEWATER RATE BASE	<u>\$2,061</u>		<u>\$11,089</u>		<u>\$11,089</u>
10. OPERATING RATIO*	<u>-257.59%</u>		<u>-83.60%</u>		<u>10.00%</u>

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

SCHEDULE NO. 3-C
 DOCKET NO. 100472-WS
 PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</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.	<u>58</u>	<u>0</u>
Subtotal	<u>(\$63)</u>	<u>\$0</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.	<u>(151)</u>	<u>(151)</u>
Subtotal	<u>(\$14)</u>	<u>(\$14)</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>\$903</u>	<u>\$3,890</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		SCHEDULE NO. 3-D		
TEST YEAR ENDED 12/31/2010		DOCKET NO. 100472-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(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	(63)	[1]	24,348
(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	(14)	[8]	989
(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>	<u>[12]</u>	<u>2,312</u>
	<u>\$44,797</u>	<u>\$903</u>		<u>\$45,700</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 UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(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	0	59,727
(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	(14) [8]	990
(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	2,490	(519) [12]	1,971
	<u>\$73,803</u>	<u>\$3,790</u>	<u>\$77,593</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	STAFF RECOMMENDED RATES	RATE REDUCTION
<u>Residential and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$22.85	\$26.11	\$0.18
3/4"	\$0.00	\$39.17	\$0.27
1"	\$0.00	\$65.28	\$0.44
1-1/2"	\$0.00	\$130.55	\$0.89
2"	\$0.00	\$208.88	\$1.42
3"	\$0.00	\$417.76	\$2.83
4"	\$0.00	\$652.75	\$4.43
6"	\$0.00	\$1,305.50	\$8.86
<u>Gallonge Charge</u>			
Per 1,000 Gallons	\$2.46	\$2.81	\$0.02
<u>Typical Quarterly Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$30.23	\$34.54	
5,000 Gallons	\$35.15	\$40.16	
10,000 Gallons	\$47.45	\$54.21	

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	STAFF RECOMMENDED RATES	RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$29.27	\$36.53	\$0.15
<u>Gallonge Charge</u>			
Per 1,000 Gallons (18,000 gallon cap)	\$6.02	\$6.38	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$29.27	\$36.53	\$0.15
3/4"	\$0.00	\$54.80	\$0.22
1"	\$0.00	\$91.33	\$0.37
1-1/2"	\$0.00	\$182.65	\$0.75
2"	\$0.00	\$292.24	\$1.20
3"	\$0.00	\$584.48	\$2.40
4"	\$0.00	\$913.25	\$3.74
6"	\$0.00	\$1,826.50	\$7.49
Gallonge Charge per 1,000 gallons	\$6.02	\$7.66	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$47.33	\$55.67	
5,000 Gallons	\$59.37	\$68.43	
10,000 Gallons	\$89.47	\$100.33	